

## **MANAGEMENT THEORY AND PRACTICE**

NMIMS

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# MANAGEMENT THEORY AND PRACTICE

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**Introduction to Management:** Introduction - Management as an Art - Management as a Science - Management Both Science and Art - The Role of Management in Society - Definition of Management: It's Nature and Purpose

**Evolution of Management Thought:** The Classical Approach - Charles Babbage -Frederick W. Taylor - Henry Laurence Gantt - Henri Fayol - Robert Owen - Max Weber - George E. Mayo - The Systems Approach - Summary of Management Trends

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**Culture in the Organization:** Introduction - Culture and the Business Organization - Components of Culture - Corporate Culture - Culture and Communication - How to Effect Cultural Change in the Organization - Implications of Culture in Management - Minimizing Conflict Between Administrative Action and Cultural Values

**Role of Information in Organizations:** Data and Information - Value Added Resources - Planning and Administration Competency - Common Information Technologies - Decision Support System - Expert System - Group Decision Support System - Teamwork Competency

**Managerial Decision Making:** Types of Managerial Decisions- Decision Making Process - Importance of the Decision - Time Pressures - Group Decision Making - Techniques for Stimulating Creativity - Information Technology and Decision Making

# 1

## CHAPTER

### EVOLUTION OF MANAGEMENT

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## INTRODUCTORY CASELET

## MANAGEMENT AT TRUELOCAL

**TrueLocal** is one of the leading online business directories in Australia. It mainly provides information on all types of businesses in Australia. Its head office is located in Sydney, while sales offices are located in Brisbane and Melbourne. TrueLocal was established by NDM in 2005. Initially, at the time of establishment, TrueLocal aligned its culture, values, and structure with NDM so that strategic goals defined by TrueLocal can be achieved. The aim of TrueLocal was to emerge as the top most provider of online information in Australia. Consequently, NDM merged all the operations of its other subsidiaries with TrueLocal and redesigned the organisation structure by flattening it out under a newly created management team and CEO.

The new management team modified the existing management structure and policies. Because of this change, most of the staff members were dissatisfied as they were clueless as to whom they had to report. They were also unaware of reporting channels, processes, and goals due to ineffective communication from the management. As a result, many of the staff members left the organisation as they felt confused and disappointed.

Witnessing the new distressed situation, the management decided to offer new career proposals to its experienced staff. The organisation also hired fresh talents, who were more cooperative and encouraging about the improvements that were to be made in the organisation.



## LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- Explain the history of management
- Discuss the approaches to management
- Describe the contributions of leading scholars
- State the recent development in management

## 1.1 INTRODUCTION

Since time immemorial, managing has been the most imperative activity as the society has continuously relied on group efforts. Moreover, it has always been crucial to ensure the coordination of individual efforts right from the time people engaged socially. Well-coordinated efforts are pivotal for achieving the aims and objectives that cannot be realised individually. Management is an act of achieving results by coordinating individual efforts. Different management experts have defined management differently. Some of the definitions are given as follows:

According to **FW Taylor**, *Management is the art of knowing what you want to do and then seeing that it is done in the best and cheapest way.*

According to **Harold Koontz** and **Cyrill O' Donnell**, *Management is the creation and maintenance of an internal environment in an enterprise where individuals, working in groups, can perform efficiently and effectively towards the attainment of group goals.*

The above definitions provide the traditional view of management. However, the meaning of management is ever expanding. As organised groups have become enormous over the years, the role of management has also been increasing in importance and complexity. Organisations nowadays have become more global; employee groups are more diverse; and organisation structures do not contain large hierarchies rather focus on a collaborative approach. To tackle these new challenges, organisations are adopting new methods and philosophies of management. In this chapter, let us study the concept, meaning, and evolution of management in detail.

## 1.2 HISTORY OF MANAGEMENT

The history of management can be traced back to 5000 B.C. when the agriculture revolution was at the initial stage. In Egypt, in 2900 B.C., the pyramids were built in a highly organised and coordinated manner. These pyramids have become a classic example of management.

Apart from this, management skills can also be found in the suave cities of Mohan-jo-Daro in India. Another great example of management

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was shown in the organised military of Alexander the Great during his military conquests in 336 to 323 B.C. Management was also a part of the Roman Empire, which organised its general administration and controlled its political, military and judgmental issues by using effective communication.

Management that we observe in organisations is attributed to the industrial revolution in the late eighteenth century. Let us discuss about management and the industrial revolution.

### 1.2.1 INDUSTRIAL REVOLUTION

Management practices that have been followed in organisations emerged as a result of the industrial revolution in the late eighteenth century. Industrial revolution was a period of transition from manual production methods to new manufacturing processes in the late eighteenth century. Prior to this period, only small-scale industries were present for the survival of the world's vast population. After the industrial revolution, people began to shift their base to urban cities. As these cities were witnessing the emergence of factories, there were a large number of employment opportunities.

During industrial revolution, management was based on two main propositions, which are:

**Firstly**, labour was perceived as a bunch of lethargic people who work only when controlled and supervised.

**Secondly**, labour was the only factor that could bring reduction in costs. Therefore, all the efforts were made to reduce labour costs and increase production.

There were many characteristics of the industrial revolution. Some of the important characteristics are:

- ❑ **Specialisation:** During the industrial revolution, the principle of division of labour was followed wherein each worker was allotted a particular job with the purpose of achieving specialisation in that job. The specialisation of labour led to assembly line production.
- ❑ **Standardisation:** During the industrial revolution, the main focus was laid on standardisation wherein identical products were produced in huge quantities. Standardisation led to the same level of quality across organisations, which helped customers in acquiring the same type of products from anywhere in the market.
- ❑ **Synchronisation:** It refers to the blending of all different elements at one place. These elements were raw materials, semi-finished goods, machines and equipment, and labour force. Synchronisation generally took place in the assembly line where all the parts were assembled to produce the final output.



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- ❑ **Maximisation:** Here, it refers to the maximisation of production. During the industrial revolution, the focus was on increasing the level of production by optimising capital, time, and labour. This promoted the philosophy of **survival of the fittest**, which led to mergers and acquisitions.
- ❑ **Centralisation:** During the industrial revolution, all controlling powers were in the hands of top management. All policy-related decisions were taken by the top management, while operational decisions were decentralised.

### 1.2.2 FORCES BEHIND MANAGEMENT THOUGHTS

The concept of management is not new and has emerged as a result of a complex evolutionary process. Management has been practiced for many years right from the time of The Sumerians, Babylonians, and Romans. However, it gained importance during the industrial revolution era and was backed by many forces. Figure 1.1 shows the three main forces of management:

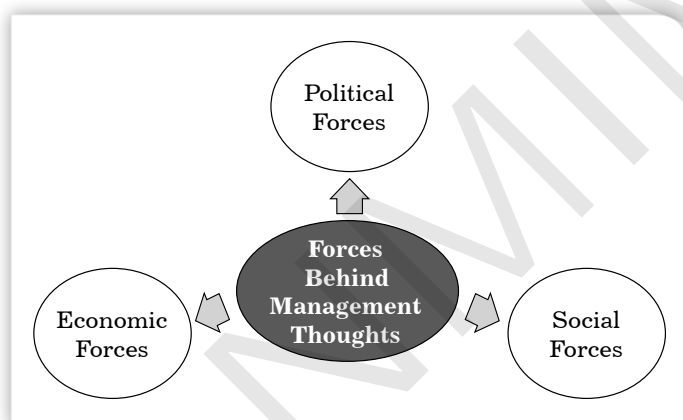


Figure 1.1: Forces of Management Thoughts

Let us study these forces in detail.

- ❑ **Political forces:** Political forces, such as government regulations, political institutions, and trade policies affect in the areas of environmental analysis, organisational design and structure, and employee rights. Political pressure has a major impact on organisations' management as the rights of customers, suppliers, labour, creditors, owners, and other segments keep changing with respect to changes in the political environment of a country.
- ❑ **Social forces:** These forces can be in the form of social norms arising from the values and beliefs of people in a society. These forces help in the formation of social contracts, wherein no particular sets are mutually understood. People interact with each other on the basis of these norms. Similarly, social contracts are also formed between organisations and their labour, creditors, investors, and customers.

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- ❑ **Economic forces:** These forces are responsible for the formation of base market economy and other concepts, such as private ownership of property, economic freedom, and competitive markets. These forces also play an important role in determining the distribution of goods and services in a society.



## SELF ASSESSMENT QUESTIONS

1. In which empire, management organised general administration and controlled its political, military, and judgmental issues by using effective communication?
  - a. Roman Empire
  - b. Mughal Empire
  - c. Ottoman Empire
  - d. Russian Empire
2. \_\_\_\_\_ was a period of transition from manual production methods to new manufacturing processes in the late eighteenth century
3. Name the characteristic of the industrial revolution that is all the maximisation of production.
4. Political forces can be in the form of social norms arising from the values and beliefs of people in a society. (True/False)



## ACTIVITY

Find out major developments that took place during the industrial revolution through magazines, books, CDs, etc. Compare these developments to the management practices of the present era.

### 1.3 APPROACHES TO MANAGEMENT

The industrial revolution laid the foundation for various management approaches. Each approach has attempted to explain the concept of management from different aspects. The two most common approaches to management are listed in Figure 1.2:

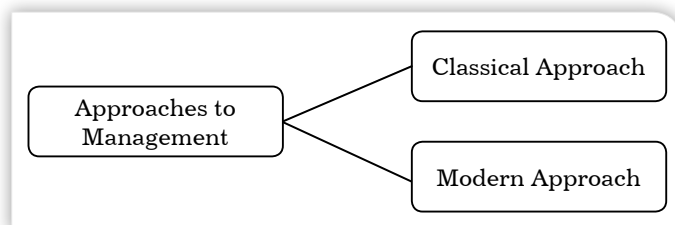


Figure 1.2: Approaches to Management

Let us study the two approaches in detail in the subsequent sections.

### 1.3.1 CLASSICAL APPROACH

The classical approach to management was developed in the period between the 1880s to the 1920s. In this approach, it was recommended that production can be increased by improving the efficiency of an organisation. Thus, managers must focus on determining the best ways to perform jobs. The classical approach to management can be studied under three main areas, which are shown in Figure 1.3:

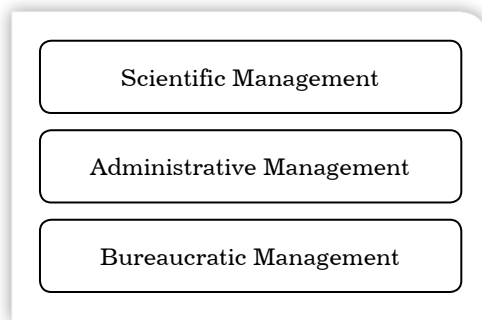


Figure 1.3: Classical Approach to Management

Let us discuss these three areas in detail in the subsequent sections.

#### SCIENTIFIC MANAGEMENT

The scientific management approach was developed by Frederick Winslow Taylor (1856-1915), who was an American engineer. Thus, scientific management is also popular by the name of **Taylorism**. He conducted a series of experiments in three organisations that greatly influenced management thoughts. His contribution in scientific management can be studied under the following categories:

- ❑ **Time and motion study:** It is a technique of scientific management that was developed to define employee productivity standards. In this technique, a complex job is first divided into a series of simple tasks. After that, the way these tasks are performed is observed to determine and eliminate waste motions. In this way, the precise time taken to complete the job is determined, which further helps in developing delivery schedules and incentive schemes. Time and motion study is most appropriate for repetitive jobs.
- ❑ **Differential piece rate plan:** This plan was developed by Taylor on the assumption that all the workers have different capabilities and must be paid accordingly. This plan is also based on an assumption that the production system is based on piece rates. Under the plan, time and motion study is used to estimate the standard time of completing a job. Based on the standard time, two piece rates are devised, namely higher and lower. The workers who exceed the standard time are given higher piece rates as wages. On the other hand, lower piece rates are given to those workers who do not meet the standard.

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- ❑ **Supervision:** Taylor suggested that work in an organisation must be planned and assigned to the workers by foremen. Foremen should assign work on the basis of workers' specialty and supervise the performance of workers. For that, an organisation should hire adequate number of foremen.
- ❑ **Scientific recruitment and training:** Taylor laid emphasis on training workers and developing their skills so that they can efficiently perform more than one type of job.
- ❑ **Friendly cooperation between management and workers:** Taylor believed that both management and workers have one common goal, i.e. increase in production. Therefore, both management and workers must work together in harmony to achieve the common goal.

**ADMINISTRATIVE MANAGEMENT**

Henri Fayol (1841-1925), a French mining engineer, promoted the concept of administrative management. He focussed on developing administrative principles that could be applicable to both general and higher managerial levels. Fayol presented 14 principles of management, which act as a guide for developing management practices. These principles are explained as follows:

1. **Division of work:** According to this principle, work should be divided among individuals and groups according to their skills and knowledge. This helps in completing the work with greater efficiency.
2. **Authority and responsibility:** Authority is a right of an individual to give orders and instructions. The right of authority arises from the position, intelligence, experience, and skills of a manager. On the other hand, responsibility is a state of being accountable for the consequences of the decisions taken by an individual. Managers should be responsible for the actions taken by them.
3. **Discipline:** Discipline in an organisation refers to the obedience to authority. Employees must obey and respect the governing policies and rules of the organisation. In order to maintain good discipline in an organisation, there is a need for good supervision at all levels; clear understanding between management and workers; and rational use of penalties.
4. **Unity of command:** According to this principle, employees associated with a particular type of work should report to one superior only. This helps in avoiding confusions in the role of the employees.
5. **Unity of direction:** It means that there should be one direction in which employees must move to achieve a particular objective. If employees get pulled into different directions, it may be difficult for them to achieve the objective.

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6. **Subordination of individual interest to general interest:** In this principle, Fayol laid emphasis on aligning individuals' personal goals to organisational goals.
7. **Remuneration:** There should be provision of fair wages for workers. The calculation of wages should be done by considering various factors, such as business environment, cost of living, capacity of organisation to pay, and productivity of employees.
8. **Centralisation:** According to Fayol, the degree of centralisation should be decided to make the optimum utilisation of employees' skills.
9. **Scalar chain:** Scalar chain refers to the hierarchy followed in an organisation from top managers to employees working at lower levels. According to the principle of scalar chain, all communication should pass through proper channels of hierarchy. However, in case there are any delays in communication due to hierarchy, there must be provision of cross communication. According to Fayol, scalar chain is vital to the success of organisations.
10. **Order:** Order is required for the efficient coordination of all the elements in an organisation. Management must follow the principle of the right place for everything and every man.
11. **Equity:** The principle of equity means fair treatment of all employees. Management must treat all employees equally and should be free from biases and prejudices.
12. **Stability of tenure of personnel:** Management must strive to stabilise the tenure of employees by providing them job security. Increased turnover always results in inefficient production; therefore, organisations must attempt to reduce it by improving employee morale and motivation.
13. **Initiative:** Management must provide freedom to employees so that they can carry out orders effectively. Employees should be encouraged to take initiatives in their respective fields in order to perform their jobs efficiently.
14. **Esprit de corps:** It refers to team spirit. Management must adopt new ways to improve team spirit among employees. This helps employees to work in harmony.

## BUREAUCRATIC MANAGEMENT

Bureaucratic management was promoted by Max Webber (1864-1920), who was a German sociologist. According to Webber, bureaucratic management is the most appropriate administration. Some of the important characteristics of bureaucratic management are:

- ❑ **Management by standard rules:** According to Webber, an organisation must be governed by a set of rules. Upper level managers must follow these rules while controlling lower level workers.

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- ❑ **Division of labour:** Webber promoted the principle of division of labour while assigning the work to all employees. According to him, the division of labour results in saving a lot of time consumed during changing over from one job to another.
- ❑ **Selection of personnel having technical skills:** Employees having required technical skills must be hired in order to perform their jobs efficiently.
- ❑ **Hierarchical organisational structure:** In order to be successful, an organisation must adopt a hierarchical structure wherein lower level employees must be under the supervision of higher level managers.
- ❑ **Record of all administrative acts, decisions, and rules:** An organisation must keep a record of all its administrative activities including policies, rules, and decisions. The record can be used in the future for studying the nature of activities and people in the organisation.

### 1.3.2 MODERN APPROACH

The modern approach to management was given in the 1950s. The approach focused mainly on employee satisfaction. According to this approach, employees do not necessarily work for money and they like to receive affection and respect of co-workers, which further increases their productivity. This helps an employee to contribute more towards the success of an organisation. Modern approaches can be classified under the following three categories:

- ❑ **Quantitative approach:** The quantitative approach focused on managerial decision making. This approach is also known as management science approach. It was developed during World War II to find the problems of warfare. The quantitative approach can be studied under three areas, which are:
  - ❑ **Operations research:** It is a discipline that lays emphasis on improving the effectiveness of management decisions by using advanced analytical techniques. It is sometimes considered to be a subfield of mathematics as it involves extensive calculations. Some of the commonly used operations research techniques are linear programming, querying, waiting line, routing and distribution models, etc.
  - ❑ **Operations management:** It is an area of management that involves supervising and controlling the production process. For this, various techniques are used, such as inventory analysis, statistical quality control, and networking.
  - ❑ **Management information system (MIS):** This is a computerised management system used to provide information required by organisations for their effective management. MIS facilitates the decision making process of an organisation by providing meaningful information about its business processes.

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- ❑ **Systems approach:** It was developed in the late 1960s with an aim to provide an integrated approach to solve management problems. According to this approach, a system can be defined as a set of components that are interacting regularly or are interdependent, thus making a single unit. The systems approach focuses on the following points:

A system comprises units and sub-units.

- ◆ Each and every part of a system needs to be thoroughly understood in order to analyse it.
- ◆ A system always has boundaries to define its beginning and ending.
- ◆ Every system is developed to achieve a specific goal.
- ◆ No system can exist in isolation.

- ❑ **Contingency approach:** This approach is also known as situational approach wherein an organisation determines problems by analysing its conditions and environment. According to this approach, there is no single set of rules that is applicable in solving all types of problems in organisations. Therefore, managers need to analyse every problem and various aspects associated with it, and define different ways to solve the problem.



## SELF ASSESSMENT QUESTIONS

5. Which approach of management was developed in 1800-1930?
6. \_\_\_\_\_ is also known as Taylorism.
  - a. Administrative management
  - b. Bureaucratic management
  - c. Scientific management
  - d. Traditional management
7. According to which principle, work should be divided among individuals and groups according to their skills and knowledge?
8. Who presented 14 principles of management?
9. Time and motion study is one of the important traits of bureaucratic management. (True/False)
10. Is the system approach a modern approach? (Yes/No)



## ACTIVITY

Using the Internet, find out any three organisations that have incorporated modern approaches. Prepare a report on the advantages and limitations of the approaches followed in these organisations.

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## 1.4 MAJOR CONTRIBUTORS

The concept of management was not developed by a single individual. Many scholars have contributed to the development of management. Some of the major contributors are listed in Figure 1.4:

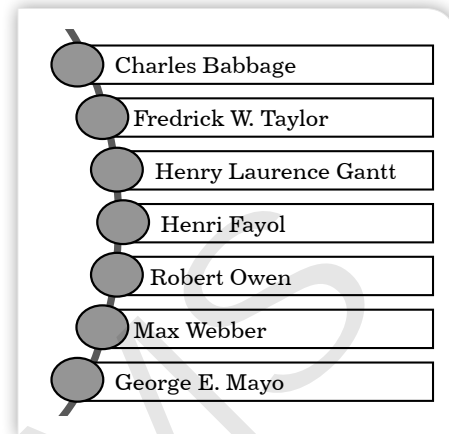


Figure 1.4: Major Contributors of Management

Let us study about these contributors in detail in the subsequent sections.

### 1.4.1 CHARLES BABBAGE

Charles Babbage (1792-1891) was a mathematician, philosopher, and a mechanical engineer. He taught maths at Cambridge University from 1828-1839. He is known as the father of computers. However, Charles Babbage also had a significant contribution to the field of management. In his view, the human factor plays a significant role in the success of an organisation; therefore, employees should be associated with the management in a manner that benefits both. Apart from this, Charles Babbage also developed the concept of profit sharing and participative decision making. He introduced the use of science and maths in the field of manufacturing operations. He advocated the use of division of labour to assign work in organisations. Moreover, he suggested that all management decisions must be based on accurate knowledge. Babbage advocated the use of quantitative methods and industrial engineering techniques to improve manufacturing.

### 1.4.2 FREDERICK W. TAYLOR

Fredrick Winslow Taylor is well known for developing the concept of scientific management; therefore, is known as the father of scientific management. Initially, he worked as an apprentice (in 1871) in a small machine shop in Philadelphia, US. In 1878, he joined Midvale Steel Works as a mechanist and went up to the position of chief engineer in 1884. After that, he joined Bethlehem Steel Works. During his career, Taylor conducted many experiments to understand the factors that



enhance productivity. Through these experiments, he developed the theory of scientific management (also known as scientific school of thought) that involves the application of scientific methods of study and analysis of various management problems. He developed the principles of scientific management with an aim of improving the productivity at the manufacturing plant. You have already studied about scientific management in the previous section. Apart from this, Taylor was also known for his contributions in the following areas:

- ❑ Use of descriptive cost accounting
- ❑ Concept of mutual understanding between workers and management
- ❑ Provision of bonus to workers for making suggestions for improvement in productivity
- ❑ Invention of an analytical machine, also known as differential machine.

#### 1.4.3 HENRY LAURENCE GANTT

Henry Laurence Gantt, (May 20, 1861 – November 23, 1919) was a management consultant. Initially, he worked as a mechanical engineer (1884) in Pool and Hunt of Baltimore. After that, he worked alongside Fredrick W. Taylor at Midvale Steel and Bethlehem Steel till 1973. Later on, he became a management consultant in the engineering industry. Gantt has been known for developing 'Task and Bonus Plan.' According to the plan, bonus must be paid to those managers who teach their employees to finish tasks efficiently in the given time period. He also promoted the concept of social responsibility of business. His best contribution emerged in the form of Gantt charts, which are visual-diagrammatic tools used for creating production schedules. The other variations of Gantt charts are Program Evaluation Review Technique (PERT) and Critical Path Method (CPM).

#### 1.4.4 HENRI FAYOL

Henri Fayol was a French mining engineer and an industrialist. His main focus was on improving the efficiency of operations management in organisations. He developed the concept of administrative management, wherein he formulated several management principles that could be applied to all types of organisations. You have already studied about the theory of administrative management in detail. Henri Fayol is also considered as the father of modern management. He also laid down best practices for managers, which are as follows:

- ❑ Managers must be able to complete work within a specified period of time
- ❑ Managers must organise both human and non-human resources in order to carry out tasks effectively.
- ❑ Managers must take commands while selecting and assessing workers.

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- ❑ Managers must coordinate with all the workers for sharing information and problems.
- ❑ Managers must ensure that all the activities are carried out as planned.

**1.4.5 ROBERT OWEN**

Sir Robert Owen (1771-1858) was a Welsh social reformer and a proponent of human resource management. According to him, investing in human resource is better than investing in other assets. He advocated that employees should be working because they are interested in it rather than being forced. He also propounded that there should be a harmonious relationship between managers and employees in order to improve the efficacy of production. Managers must make workers aware of the organisation's expectations and support them in meeting those expectations. His philosophy and ideas are considered as a forerunner to the development of behavioural approach of management.

**1.4.6 MAX WEBER**

Max Weber is famous for developing the bureaucratic management theory in which he emphasised the requirement of a hierarchy in organisations. He also advocated that there should be well-defined regulations and authority in organisations. Weber perceived three types of administration, namely traditional, charismatic, and bureaucratic. In traditional organisations, managerial positions are handed down from one generation to the other irrespective of intelligence, knowledge, and experience. In charismatic organisations, management functions are not delegated and all the employees are considered to be the loyal subjects of a leader. In bureaucratic organisations, a person is given a managerial responsibility as per his/ her capability. In Weber's view, bureaucratic administration was the ideal one for all organisations.

**1.4.7 GEORGE E. MAYO**

George E. Mayo, also known as Elton Mayo (1880-1949), was an Australian psychologist. He is famous for his contribution in Hawthorne studies. Hawthorne studies were conducted to find the relation between physical environment and workers' output. Hawthorne experiments were conducted at Western Electric Plant at Chicago. Mayo was involved in the project in 1929 and 1930, and interviewed the workers involved in the experiments. Through these studies, Mayo concluded that workers become more productive if they receive attention from the management. The outcome of his findings in Hawthorne studies later gave way to the human relations movement. The movement focuses on the concept of job satisfaction, group norms, and leadership quality and their significance in the improvement of productivity.

**SELF ASSESSMENT QUESTIONS**

11. Who developed the concept of profit sharing and participative decision making?
  - a. Max Weber
  - b. Charles Babbage
  - c. George E. Mayo
  - d. Robert Owen
12. Contribution of Henry Laurence Gantt:
  - a. Task and bonus plan
  - b. Scientific management
  - c. Programmable computer
  - d. Human relations approach
13. In charismatic organisations, managerial positions are handed down from one generation to the other irrespective of intelligence, knowledge, and experience. (True/False)
14. Hawthorne studies were conducted to find the relation between physical environment and workers' output. (True False)

**ACTIVITY**

Using the Internet, prepare a draft on the Hawthorne experiments conducted at the Western Electric Plant and make an analysis of the findings.

**1.5****RECENT DEVELOPMENTS  
IN MANAGEMENT**

Organisations nowadays need to keep themselves updated with the latest trends in the business environment so as to better deal with competition. There have been numerous developments in the field of management. Let us study about some of these developments in detail in the subsequent sections.

**1.5.1 JUST IN TIME AND LEAN PRODUCTION**

Over the years, a number of management philosophies have emerged. These philosophies have changed the entire gamut of management. Two such important philosophies are just in time (JIT) and lean production. JIT is a philosophy of continuous improvement, wherein unused or waste resources are identified and removed. The technique of JIT was first used by an American organisation called Ford Motor

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Company during the 1920s. However, the technique is known as Japanese innovation because it was popularised by Toyota Motor

Corporation of Japan in 1954. JIT involves different disciplines, such as statistics, industrial engineering, production management, and behavioural science. JIT is also considered to be an inventory management system in which all waste elements that increase costs are removed.

On the other hand, lean manufacturing is a management philosophy that is based on eliminating the activities that do not add any value to the end product and finding efficiencies. In lean manufacturing, the approach of 'less is better' is adopted to produce goods on demand only. Production is based on customer requirements and not on quantity targets, thereby keeping the inventory to a minimum.

Table 1.1 depicts the basic difference between JIT and lean production:

TABLE 1.1: DIFFERENCE BETWEEN JIT AND LEAN PRODUCTION	
JIT	Lean Production
JIT is a part of lean and focuses on elimination of waste of excess inventory.	Lean is a macro concept and is a complete system in itself. Lean can be used to create a JIT process.
JIT focuses more on inventory management.	Lean production focuses on manufacturing and operations management.
JIT is used to express process problems.	Lean aims at eliminating the problems.
JIT focuses on waste reduction.	Lean focuses on waste reduction as well as value creation for end users.

### 1.5.2 SOME OTHER IMPORTANT DEVELOPMENTS IN MANAGEMENT

Apart from JIT and lean manufacturing, there are some other management philosophies that have changed the business environment to a large extent. These philosophies are explained as follows:

- ❑ **5 S:** It is a waste eliminating technique used in organisations to improve production efficiency. This technique comprises Japanese words beginning with 'S.' These words are:
  - ♦ **Seiri (Sort):** It refers to organising the work area in such a manner that all the unnecessary items are eliminated. The work area should include only those tools, materials, and instructions that are necessary for production.
  - ♦ **Seiton (Straighten):** It refers to arranging all the required items in an accessible range for users and substitutes too. All the required tools, instructions, supplies must be kept at a place where they can easily locate and the work flow does not get disrupted.

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- ◆ **Seiso (Shine):** It refers to keeping machines, equipment, and tools clean. Clean items facilitate the use of work area on time.
- ◆ **Seiketsu (Standardise):** It refers to standardising the practices so that they are similar across all the workstations that indulge in the same type of job. This helps employees to complete their jobs with the same type of tools and instructions across all workstations and avoid the chances of confusion.
- ◆ **Shitsuke (Sustain):** It refers to continuing the process of improvement.
- **Six Sigma:** It is a technique that lays emphasis on measuring the quality to attain perfection. Six Sigma was developed at Motorola in 1986 for improving processes. It is employed by organisations to identify and eliminate the causes of defects in the current processes and reduce variations. In the process of Six Sigma, 99.99966% of the products manufactured are statistically expected to be free of defects (3.4 defective parts/million).
- **Kaizen:** Kaizen is a Japanese term, which means ‘continuous improvement’ through small increments. It is a philosophy or practice that focuses on continuous improvement of different processes in an organisation like manufacturing, engineering, and management. In other words, Kaizen recognises the fact that there can always be marginal (however small) improvement in organisational processes through continuous efforts.

The concept of kaizen was first used by specific Japanese industries after the Second World War. But, today the concept is implemented in many other areas besides business and productivity. Japanese called it as the most important concept of management – “it is the key of competitive success”.

It is a cumulative effect of hundreds of small improvements that create a major change in the performance of the organisation as a whole. The kaizen strategy is to nurture human resources of an organisation to the extent that encourages employees to participate in kaizen activities. In Toyota, kaizen is implemented within a local area involving small groups to improve their environment and productivity. The group is guided by a supervisor, who is not only responsible for giving instructions and controlling, but for guiding the members of the group. The kaizen methodology includes making small changes rather than extensive project scheduling, monitoring the results then readjusting if required.

The following are the features of the kaizen methodology:

- ◆ Increased labour responsibilities and empowerment
- ◆ Quality circles philosophy
- ◆ Suggestions by seniors and leaders for labour improvement
- ◆ High morale of people

## N O T E S



## SELF ASSESSMENT QUESTIONS

15. Name the philosophy of continuous improvement, wherein unused or waste resources are identified and removed.
16. In 5S, which of the following refers to organising the work area in such a manner that all the unnecessary items are eliminated?
 

a. Seiri	b. Seiton
c. Seiso	d. Seiketsu
17. Name the organisation that developed Six Sigma for improving processes.



## ACTIVITY

Find any two organisations where lean manufacturing is applied. Prepare a report on the practices used in those organisations.

**1.6 SUMMARY**

- ☐ Management is a process of defining and creating an environment where people can work together to achieve specified goals and objectives.
- ☐ The origin of the concept of management can be traced back to 5000 B.C. at the time of agricultural revolution.
- ☐ The emergence of the management concept is attributed to the industrial revolution which was a shift from manual production methods to new manufacturing processes.
- ☐ The five main characteristics of the industrial revolution are: specialisation, standardisation, synchronisation, maximisation, and centralisation.
- ☐ The forces that have been behind the evolution of management thought are political forces, social forces, and economic forces.
- ☐ In order to study management, two important approaches have been developed, namely classical approach and modern approach.
- ☐ The classical approach to management can be studied under three heads, namely scientific management, administrative management, and bureaucratic management.
- ☐ There are three approaches that fall under modern approach of management, namely the quantitative approach, systems approach, and contingency approach.
- ☐ There have been many contributions to the field of management. Some of the notable scholars who have developed different con-

cepts in management are Charles Babbage, Fredrick W. Taylor, Henry Laurence Gantt, Henri Fayol, Robert Owen, Max Webber, and George E. Mayo.

- ❑ The latest trends in management have been the introduction of lean management and just in time concept. Other notable developments in management include 5S, Six sigma, and Kaizen.



#### KEY WORDS

- ❑ **Assembly line production:** The arrangement of machines, tools, and workers wherein different parts are added to semi-finished products from one stage to the other until the final product is received.
- ❑ **Division of labour:** Assigning various types of tasks to different people to increase efficiency.
- ❑ **Kaizen:** A Japanese philosophy that aims to improve work practices and the efficiencies of processes.
- ❑ **Survival of the fittest:** A phrase or an expression which means that an element or system that adapts best to the environment will continue to exist.
- ❑ **Synchronisation:** Coordination between different events for the successful operation of a system.

### 1.7 DESCRIPTIVE QUESTIONS

1. Discuss the characteristics of the industrial revolution.
2. What are the forces behind the development of management thoughts? Explain.
3. Explain the 14 principles of management presented by Henri Fayol.
4. Write a short note on the quantitative approach to management.
5. Discuss the contributions of Frederick W. Taylor in the field of management.
6. State the best practices laid down for managers by Henri Fayol.
7. What are the recent developments in management?

### 1.8 ANSWERS AND HINTS

#### ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No.	Answers
History of Management	1.	a. Roman Empire
	2.	Industrial revolution

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Topic	Q. No.	Answers
	3.	Maximisation
	4.	False
Approaches to Management	5.	Classical Approach
	6.	c. Scientific management
	7.	Division of work
	8.	Henri Fayol
	9.	False
	10.	Yes
Major Contributors	11.	b. Charles Babbage
	12.	a. Task and bonus plan
	13.	False
	14.	True
Recent Developments in Management	15.	Just in time
	16.	a. Seiri
	17.	Motorola

**HINTS FOR DESCRIPTIVE QUESTIONS**

1. The main characteristics of the industrial revolution are specialisation, standardisation, synchronisation, maximisation, and centralisation. Refer to Section **1.4 History of Management**.
2. The main forces behind the development of management of thought are political forces, economic forces, and social forces. Refer to Section **1.4 History of Management**.
3. The 14 principles of management presented by Henri Fayol includes division of work, authority and responsibility, discipline, unity in command, unity of direction, subordination of individual interest to general interest, remuneration, centralisation, scalar chain, order, equity, stability of tenure of personnel, initiative, and esprit de corps. Refer to Section **1.5 Approaches to Management**.
4. The quantitative approach is used for managerial decision making using quantitative tools. This approach is also known as management science approach. Refer to Section **1.5 Approaches to Management**.
5. Frederick W. Taylor developed the concept of scientific management and is also known as the father of scientific management. Refer to Section **1.6 Major Contributors**.



6. According to Henri Fayol, managers must be able to complete tasks in the given time and organise resources effectively. Refer to section **1.6 Major Contributors**.
7. There have been many important developments in the field of management such as just in time, lean manufacturing, 5S, Six Sigma, and Kaizen. Refer to Section **1.7 Recent Developments in Management**.

## 1.9 SUGGESTED READINGS & REFERENCES

### SUGGESTED READINGS

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NMIMS

# 2

## C H A P T E R

### NATURE OF MANAGEMENT

#### CONTENTS

- 2.1 Introduction
- 2.2 Definition of Management
  - Self Assessment Questions
  - Activity
- 2.3 Nature and Purpose of Management
  - 2.3.1 Management as Science
  - 2.3.2 Management as an Art
    - Self Assessment Questions
    - Activity
- 2.4 Functions of Management
  - Self Assessment Questions
  - Activity
- 2.5 Role of Management in Society
  - 2.5.1 Social Responsibility of a Business
  - 2.5.2 Social Responsibility towards Different Interest Groups
    - Self Assessment Questions
    - Activity
- 2.6 Management and Administration
  - Self Assessment Questions
  - Activity
- 2.7 Management as a Profession
  - Self Assessment Questions
  - Activity
- 2.8 Summary
- 2.9 Descriptive Questions
- 2.10 Answers and Hints
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## INTRODUCTORY CASELET

**RE-INVENTING FORD'S MANAGEMENT  
BY DONALD PETERSON**

Ford Motor Co., an American multinational automaker, declared a loss of \$1.5 billion in 1980. The main reason for such loss was the rise in gasoline prices and interest rates that made cars less affordable. To cover the loss, Donald Peterson was promoted to the presidency by Ford Family in 1980. During his presidency rule, Ford captured the highest profits as compared to its competitors like General Motors, Chrysler, etc. It was like a miracle in the U.S auto industry.

How Peterson managed it? Peterson had a vision in superseding the performance of competitors. He focused on planning for the future and considered it as an important function of management. He made the hard decision of terminating excess workers and updating product designs. For reducing design costs and improving product quality, he used various management programs. He was of the conviction that Ford workers are central to solving Ford's problems.

The cost cutting strategy bagged Ford the title of the lowest cost producer. Its plants that manufactured the model Mercury Sable were ranked among the most efficient plants in the world. Moreover, Peterson won the trust of employees by communicating with workers in different plants and offices. An employee involvement program was also developed to get ensure the maximum participation of employees in decision making.

**Peterson** said, *"I think a lot of people get the impression I was advocating an organisation of teams. I wasn't, I advocated a frame of mind. This is what needs to be done. Now how do we get it done? The answer is let the team do it in the most effective way."*

Peterson developed a broad statement of the organisation's mission, values, and principles. It also used Japanese management techniques and just in time production methods. Thus, Peterson through his cooperative, non-management style motivated employees and ensured the success of Ford.

**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- Define management
- Discuss the nature and purpose of management
- List the functions of management
- State the role of management in society
- Relate management with administration
- Discuss management as a profession

## 2.1 INTRODUCTION

Management is a universal phenomenon and is concerned with all the aspects of an organisation's functioning. Lack of good management may lead to unnecessary wastage of money, time, and efforts of an organisation. The success of an organisation depends a great deal on the effectiveness of management. The main objective of management is to draw maximum output out of minimum efforts and resources. Therefore, every organisation must ensure effective management. For this, it is important for an organisation to understand the nature of management with respect to business activities.

In the context of the nature of management, there is a controversy whether management is a science or art. Different experts have given different viewpoints on the nature of management. As science is an organised and systematic body of knowledge that is acquired by performing various experiments and observations, management is also based on gaining knowledge through research and experiments. On the other hand, as art is concerned with having knowledge and skills for achieving the desired results, management also requires specific skills and abilities; otherwise the performance of the organisation would be adversely affected. Thus, it can be said that management is both science and art.

Apart from this, management is also regarded as a function or process that aims to combine individual efforts to pursue certain organisational goals. This is done by mobilising and utilising resources optimally and developing a set of skills, introducing advanced techniques, etc. Thus, management is said to be a highly critical function that is vested with some degree of authority and power to take important decisions and implement them effectively. In this chapter, you will study about the nature of management in detail.

## 2.2 DEFINITION OF MANAGEMENT

Management is a process of creating and maintaining an environment where individuals work together to achieve certain goals by using the

## N O T E S

available resources optimally. It is an integral part of every organisation as it helps in planning and coordinating the activities of the organisation. Management can be defined from different viewpoints, which are:

- ❑ **Traditional viewpoint:** As per this viewpoint, management is all about managing people tactfully and getting jobs done through the efforts of people.
- ❑ **Modern viewpoint:** According to this viewpoint, management is a group activity that intends to achieve individual goals of the group as well as organisational goals. For this, it performs five major functions, such as planning, organising, directing, staffing, and controlling, and employs various human and non-human resources like material and machines.
- ❑ **7 Ms viewpoint:** This viewpoint states that management is a combination of 7 Ms, which are men, machine, material, money, methods, market, and motive. When these 7 Ms are combined together, they help in achieving results in the form of increased production, sales, revenue, and goodwill.
- ❑ **4Ps viewpoint:** As per this viewpoint, management centres around 4 Ps, which are productivity, people, profit, and public relationship. Thus, management aims to earn profits by transforming inputs into output and at the same time serving the interests of employees and the society.

Some of the definitions of management given by experts are as follows:

As per **George R. Terry**, *Management is process consisting of planning, organising, actuating and controlling, performed to determine and accomplish the objectives by the use of people and resources.*

In the words of **E.F.L Breach**, *Management is concerned with seeing that the job gets done; its tasks all centre on planning and guiding the operations that are going on in the enterprise.*

According to **American Management Association**, *Management is guiding human and physical resources into dynamic organizational units which attain their objectives to the satisfaction of those served and with a high degree of morale and sense of attainment on the part of those rendering service.*

**Peter. F. Drucker** the renowned management expert has defined management as *The substitution of thought for brawn and muscle, of knowledge for folklore and superstition, and of cooperation for force.*

It should be noted that the management is not physically present, but has to be practiced by all people everywhere for constant and essential improvement in every aspect of life. Efficiency and effectiveness are the two important aspects of successful management. This is because management is a problem-solving process of effectively achieving the objectives by efficient use of resources. It is applicable to every organisation irrespective of the organisational size and nature.

**SELF ASSESSMENT QUESTIONS**

1. What does 7Ms stand for in the 7 Ms viewpoint on management?
2. What are the two important aspects of successful management?

**ACTIVITY**

Compare the management practices of any two organisations from the same industry.

**2.3****NATURE AND PURPOSE OF MANAGEMENT**

Management is an activity that employs various resources to accomplish the predefined goals and objectives. Let us discuss the following characteristics of management highlighting its nature:

- ❑ **Management is goal oriented and purposive:** Management does not exist without a goal. It is because the success of any management activity is determined by the achievement of goals. Thus, it can be said that management is purposeful and centred on a particular goal.
- ❑ **Management is universal:** Management is required by individuals in every aspect be it their personal or professional lives. For example, in the professional life, individuals need to manage a number of activities to accomplish the pre-defined goals and objectives. On the other hand, in the personal lives, individuals need to manage various tasks starting from cooking, cleaning, entertaining, etc. Apart from this, management forms an integral part of every type of organisation be it is a small-scale firm involved in trading or billion-dollar firms like Tata, Reliance, etc. Therefore, management is called a pervasive activity.
- ❑ **Management is continuous:** Management is an on-going activity that is performed by managers at all levels for the continuous and consistent achievement of organisational goals. Apart from this, management identifies growth opportunities on a regular basis to survive in the market. Thus, management is a never-ending process.
- ❑ **Management is a group activity:** Management is more concerned with groups rather than individuals. This is because the essence of the organisation lies in the coordination of individual efforts. Thus, management is an integrative force that sums up individual efforts to achieve the desired goals and objectives.
- ❑ **Management is intangible:** Management can only be seen in the form of results like increased productivity and profits. Thus, its presence can be felt but cannot be seen.

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Now, let us discuss the purpose of management. The purpose of management has been discussed in the following points:

- ❑ **Achievement of goals and objectives:** An organisation can be successful if it continuously strives to achieve its goals and objectives. Management aims to achieve individual and organisational goals by utilising human and non-human resources judiciously. This also creates the spirit of teamwork and coordination among employees.
- ❑ **Optimum utilisation of resources:** Effective management ensures the availability of adequate resources, such as material, money, manpower, and machines so that production cannot be hampered. Moreover, management ensures that employees get the required training and instructions to make the best utilisation of available resources.
- ❑ **Cost minimisation:** Management ensures that day-to-day operations in the organisation take place in such a manner that the wastage of resources is prevented. This ultimately results in reduced production costs.
- ❑ **Survival and growth:** It is important for every organisation to adapt itself to the changing needs of the market and society. Management assesses the existing business environment and forecasts risks and opportunities in the future. This helps in minimising risks and maximising opportunities for the organisation.
- ❑ **Development of a nation:** Management is also important at the national level that is why it is called key to economic growth of a country. Nations can grow well if wealth-related resources are managed well. This further leads to increase in national income and a rise in the living standards of people.

### 2.3.1 MANAGEMENT AS A SCIENCE

As stated earlier, there is a controversy about the nature of management whether it is an art or science. Different viewpoints have been given by management experts on the nature of management. Here, let us discuss management as a science.

What strikes to your mind when it comes to **science**? Probably, a laboratory, chemicals, and experiments. **Webster's College Dictionary** defines science as *any skill or technique that reflects a precise application of facts or a principle*. Thus, management is also called science as it involves the application of systematic methods of enquiry and analysis of information to take critical business decisions.

Management is called science as it has its own principles that can be applied everywhere. For instance, the principle of division of work and specialisation can be applied anywhere. According to the principle, if the same work is given to a person repeatedly, he/she gains



expertise in that work whether it is the personal or professional life of the person. As per **Luther Guelick**, *Management is already a field of knowledge and is becoming a science, because the inter-relationships being involved are being explained systematically and emerging theories are being tested and improved by logic and facts of life.*

Management experts who believe in management as a science state that there are ideal managerial practices for particular situations. In addition, they believe that there is a rational and objective way for determining the appropriate course of action. These experts also advocate that managers need to follow general principles and theories as well as form and test hypotheses to solve a particular problem. For example, if there is a problem of poor work performance of an employee, specific means of performance improvement would be adopted like training programs and one-to-one interaction. Apart from this, early management researchers like F.W. Taylor, Frank and Lillian Gilberth, and many others provided scientific methods to manage work.

However, it should be noted that management is not like natural or exact science but it is more like behavioural science. This is because in case of natural science, it is possible to study the effects of any of the factors affecting a phenomenon by keeping other factors constant. For instance, to study the effect of heat on the density of air, other factors such as humidity can remain constant for a time being. However, it is not possible in case of management as it involves the study of individuals. For example, it is not possible to study the effect of monetary incentives on employees' productivity. This is because productivity is an effect of various factors like motivation, pressure, targets, leadership, etc. Therefore, management is regarded more as behavioural science rather than natural science.

### 2.3.2 MANAGEMENT AS AN ART

Art is defined as a system of doing something in an organised manner. Understanding how a particular work can be accomplished is an art. Management experts who believe that management is an art advocate that there is no specific way to learn management. According to them, management is a skill that comes from an individual's personality and ability. Thus, it is said that *managers are born, not made.*

In addition, experts believing in management as an art propounded that managers need to rely on the social and political environment and use their own body of knowledge to determine a course of action. Let us consider the example given in the case of management as science where there was a problem of an employee's poor work performance. As per the art perspective, this problem can be solved by managers by relying on their own experiences and judgments.

## N O T E S

Some renowned management experts have given their viewpoints on management as art. Let us discuss about the viewpoints of these experts as follows:

- ❑ **Henry Mintzberg:** He is the most noticeable advocate of the thought that management is an art. He stated that management is an art as managers do not necessarily have routine behaviour instead they use their own social and political skills to solve problems and determine an appropriate course of action.
- ❑ **David E. Lilienthal:** He presented his view on management as an art in his series of lectures titled **Management: A Humanist Art** published in 1967. According to him, managers are artists as they need to respond differently to different employees and motivate them in order to get the work done by the employees.
- ❑ **Peter Drucker:** He termed management as liberal art as it involves the practice and application of knowledge, wisdom, and leadership. He rejects the view that management involves established facts. This is because management practices change with changes in the business environment.

However, none of the two views whether management is an art or science can be rejected completely. This is because both of these views are supported by an extensive body of literature on management. Thus, it can be said that management involves the aspects of both science and art. The discipline of art is backed by science because science is basic knowledge of that art. Similarly, the discipline of science is complete only when practical knowledge (art) is applied for solving various types of problems.

Table 2.1 summarises management as science, art and profession:

TABLE 2.1: MANAGEMENT AS SCIENCE, ART AND PROFESSION		
Management as Science	Management as Art	Management as Profession
Implies systematic methods of enquiry and analysis of information to take critical business decisions	Involves an organised body of theoretical knowledge	Requires specialised skills applicable in large scale organisations and interest of society as a whole.
Consists principles based on repeated experiments that can be applied everywhere.	Considers management as a skill that comes from an individual's personality and ability	Considers management a separate discipline which involves research, observations and practice

## N O T E S

Management as Science	Management as Art	Management as Profession
Involves rational and objective way for determining an appropriate course of action for specific situations	Relies on the social and political environment and use their own body of knowledge to determine a course of action for specific situations	Involves specific rules and regulations to achieve set goals
Follows general principles and theories as well as form and test hypotheses to solve a particular problem	Depends on personal skills, practice and creativity to solve a particular problem	Requires practitioners to have formal education and training with updates of professionalism
Appears more as behavioural science rather than natural science	Involves practices that change with changes in the business environment	Bears responsibility towards members of society such as consumer, investors, employees and shareholders.



## SELF ASSESSMENT QUESTIONS

3. Management is required by individuals in every aspect be it their personal or professional lives. What nature of management does it reflect?
4. Management is an on-going process that is performed by managers at all levels in an organisation. (True /False)
5. \_\_\_\_\_ is defined as a system of doing something in an organised manner.



## ACTIVITY

Visit an organisation in your vicinity and hold a discussion with 2-3 managers there on the management approaches followed in the organisation. Prepare a report on the theoretical (science) and practical (art) approaches of management adopted by the organisation.

## 2.4 FUNCTIONS OF MANAGEMENT

In an organisation, management is operated through a number of functions called management functions. These functions define the role and jobs of managers and form the process of management in an organisation. Similar to the nature of management, there is a lot of disagreement among management experts on the classification of management functions. Some experts classify management functions into four types while some into six or seven types. Moreover, different

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experts have provided different names for the same types of functions. For example, Newman and Summer, leading American management thinkers and scholars, have given only four functions of management, namely planning, organising, leading, and controlling. On the other hand, Henri Fayol has identified five functions of management, which are planning, organising, commanding, coordinating, and controlling.

However, there are five management functions that are common in every organisation. These functions are shown in Figure 2.1:

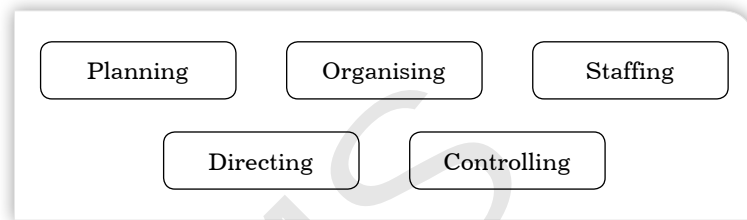


Figure 2.1: Functions of Management

Let us discuss these functions of management in detail.

- ❑ **Planning:** It is a forward-looking function that involves forecasting the requirements of the future to achieve the desired results. The future forecasting is done on the basis of past analysis. In a nutshell, you can say that planning involves determining in advance where to go, how to go, what to be done, and by whom to be done. In addition, it also attempts to forecast the problems that may arise in the future and the ways to deal with such problems.
- ❑ **Organising:** It involves determining and grouping activities and resources (such as men, machines, and material) in the most appropriate manner in order to achieve the results. In addition, organising defines various relationships in an organisation, such as authority-responsibility and inter-departmental relationships. It is because of these structural arrangements and relationships, the future plans of the organisation are developed and carried out. Similar to planning, organising is also an on-going activity that changes with any change brought about in any of the functions of an organisation. The function of organising is different for different objectives and goals. For example, organising of an accounts department's work processes is different from that of a marketing department.
- ❑ **Staffing:** It involves employing an efficient pool of people in the right quantities in order to achieve the results. The staffing function also includes determining human resource requirements and recruiting individuals with the required skills and competencies.
- ❑ **Directing:** Under directing, managers instruct and guide employees so that they can perform their jobs effectively. Moreover, the directing function also involves supervising the performance of employees. The main aim of supervision is to ensure that policies and techniques established for achieving objectives are followed

successfully. All other functions, such as planning, organising, and staffing depend on the directing function. Directing guides subordinates on how to achieve organisational objectives.

- ❑ **Controlling:** It is one of the most important functions of an organisation wherein the actual output is measured against the desired output. The main steps of the control function include establishing performance standards, measuring the actual performance, determining gaps between set standards and achieved standards, and taking corrective measures.



#### SELF ASSESSMENT QUESTIONS

6. What is a forward-looking function of management?
7. \_\_\_\_\_ involves employing an efficient pool of people.
8. What are the steps of the control function?



#### ACTIVITY

Find out any organisation where all the functions of management are applied. Prepare a report on all these functions.

## 2.5 ROLE OF MANAGEMENT IN SOCIETY

Consider a scenario of an organisation that is located in your neighbourhood. You have been facing quality issues in the organisation's products for the past few months. In such a case, would you prefer to continue with the organisation's products? What feedback would you give to others about the organisation's products? Obviously, you would not have good feedback about the organisation's products. Thus, it is important for an organisation to manage its activities in a manner so that the interests of the society are met. This would help the organisation to build its image among customers. In this section, let us study the role of management in society.

Management is not only a representative of managers and employees but also has to fulfil certain objectives of a society. A society achieves the benefits of effective management in terms of industrial development, fairness to different social groups, satisfaction of consumers, welfare of people, and proper discharge of social responsibilities. Apart from this, the following are some other objectives of a society that management has to meet:

- ❑ Providing good quality products at fair prices to consumers.
- ❑ Making timely payment of taxes to the government.
- ❑ Conserving the biological environment and natural resources.

## NOTES

- ❑ Dealing fairly with suppliers, dealers, competitors, and other third parties.
- ❑ Preserving the ethical values of a society.

Let us study about the social responsibilities of a business.

### 2.5.1 SOCIAL RESPONSIBILITY OF A BUSINESS

A business is an economic activity that is performed on a regular basis with an aim to earn profits. However, many businessmen spend a huge amount on activities that may not create profits for them. These activities may include planting trees and developing gardens on streets, performing surveys to understand customer needs, providing housing, education, and health care services to employees, sponsoring sports events at national and international levels, etc. Have you ever thought why these businessmen do so? This is because businesses operate in a society and use the resources of the society for their functioning. Thus, businesses have certain responsibilities towards the society.

Social responsibility, also called Corporate Social Responsibility (CSR), is an emerging concept that has now been adopted by most businesses across the world. It refers to the duties and obligations of an organisation intended towards welfare of society. The activities of a business should not harm rather they protect the interests of the society. For this, businesses need to take certain actions, which are:

- ❑ Aligning social goals with corporate goals.
- ❑ Presenting reports regarding the progress of the organisation in the area of social responsibility.
- ❑ Judging social performance by applying various approaches.
- ❑ Calculating the cost of social programs against the return on the investment of those programs.

Organisations commonly follow three approaches to meet social responsibility. These approaches are shown in Figure 2.2:

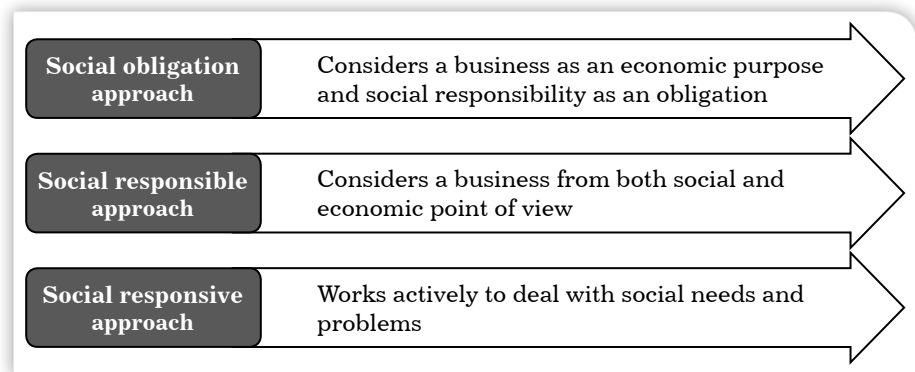


Figure 2.2: Management Approaches towards Society

### 2.5.2 SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

The CSR practices of a business are generally focused on its stakeholders. A stakeholder is an individual that has interest in a business. There can be internal or external stakeholders of a business. Internal stakeholders are individuals, who work inside the organisation; for example, employees and the board of directors. On the other hand, external stakeholders indirectly influence the organisation. Examples include shareholders, social activists, and environmentalists. The success of a business largely depends on its stakeholders. Thus, it is of paramount importance for a business to address the grievances of its stakeholders. Let us now discuss the social responsibility of a business towards different interest groups:

- ❑ **Responsibility towards shareholders:** Shareholders are the individuals who invest in a business by purchasing stock to earn profits in return. Without shareholders, it would be difficult for the business to generate adequate funds for carrying out operations. Thus, a business has various responsibilities towards its shareholders. Some of these responsibilities are:
  - ◆ Informing shareholders about annual, general, and emergency meetings.
  - ◆ Providing accurate financial information about the business to shareholders.
  - ◆ Providing fair returns on the capital invested by shareholders.
- ❑ **Responsibility towards customers:** Customers are the individuals who buy products or services of a business. A business cannot imagine its survival without a proper customer base. Therefore, it also has some responsibilities towards its customers, which are:
  - ◆ Abiding by the rules and regulations under the Consumer Protection Act, 1986.
  - ◆ Providing high quality products and services at reasonable prices to customers.
  - ◆ Ensuring maximum satisfaction of customers by giving value for money.
  - ◆ Restricting the selling of adulterated and low-quality products.
  - ◆ Solving customer's grievances by opening customer care centres.
- ❑ **Responsibility towards employees:** Employees are individuals who render services to a business in exchange of a fixed amount of wages and salaries. They are the ones who produce goods and services for customers. Thus, a business needs to protect the interests of its employees by:
  - ◆ Ensuring a healthy work working environment.
  - ◆ Providing fair wages and bonuses to employees.
  - ◆ Recognising and rewarding employees according to their performance.

## N O T E S

- ◆ Maintaining transparency in communication.
- ◆ Providing necessary training to employees so that they can better perform their jobs.
- **Responsibility towards community and society:** As discussed earlier, a business operates in a society and utilises its resources. Therefore, it also has certain responsibilities towards a society. Some of them are:
  - ◆ Working for the growth and development of the society.
  - ◆ Generating employment opportunities for people in the society.
  - ◆ Avoiding manufacturing processes that cause environmental pollution.
- **Responsibility towards government:** A business has to adhere to the rules and regulations set by the government. In case these rules are not followed, the business may have to shut down its operations. The responsibilities of an organisation towards the government are as follows:
  - ◆ Paying taxes on a regular basis.
  - ◆ Abiding by the rules and regulations prepared by the government.
  - ◆ Refraining from submitting misleading and false information or documents.
- **Responsibility towards other stakeholders:** Other stakeholders of a business include suppliers, distributors, banks, and financial institutions. The responsibilities of an organisation towards stakeholders are as follows:
  - ◆ Ensuring timely payment to suppliers.
  - ◆ Providing accurate and clear information of funds to banks.
  - ◆ Providing fair margins to distributors.
  - ◆ Providing correct and clear specifications to suppliers regarding raw materials.



## SELF ASSESSMENT QUESTIONS

9. What does CSR stand for?
  - a. Corporate Social Resources
  - b. Corporate Social Responsibility
  - c. Corporate Society Responsibility
  - d. Care Social Responsibility
10. \_\_\_\_\_ approach works actively to deal with social needs and problems.





## ACTIVITY

Prepare a report on CSR practices followed in an Indian organisation of your choice.

## 2.6 MANAGEMENT AND ADMINISTRATION

Administration and management are closely related. Both involve integrating resources and directing individuals towards the achievement of goals. Many authors, such as Elbourne, Unwick, and Mary Follett made no distinction between these two terms and used them interchangeably in their work. However, some authors have treated both as separate concepts. For instance, **Oliver Sheldon** explains “Administration as a function is concerned with the determination of the corporate policy, the coordination of finance, production, and distribution, the settlement of the compass (i.e., structure) of the organization, under the ultimate control of the executive, while management is concerned with the execution of the policy, within the limits setup by administration and the employment of the organization for the particular objects before it.” Thus, according to Oliver Sheldon, administration is a thinking process, whereas management is a doing process.

There are three different views on management vs. administration, which are shown in Figure 2.3:

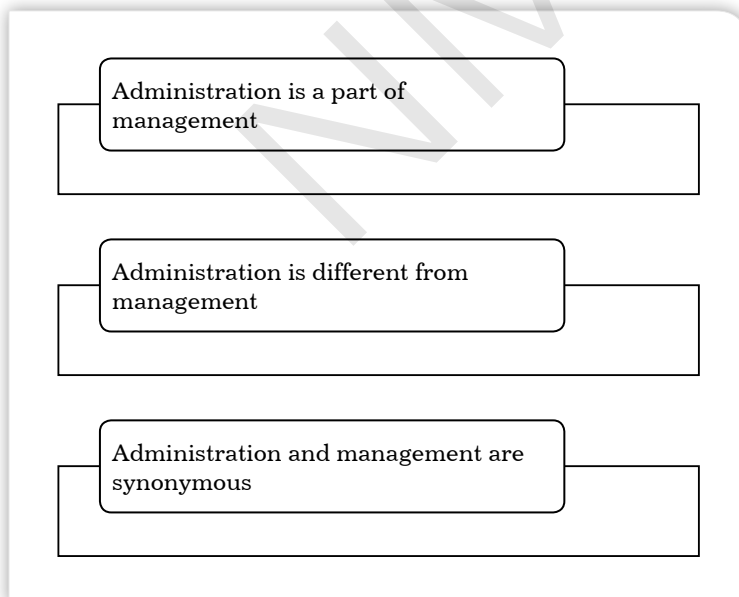


Figure 2.3: Views on Management and Administration

Let us discuss these viewpoints in detail.

- ❑ **Administration is a part of management:** This view was advocated by the European School of Thought. According to Kimball,

## N O T E S

Richman, and Copen, administration is only an implementing agency, thus is a part of the management.

- ❑ **Administration is different from management:** As per this view, administration is a higher level activity, while management is a lower level function. Administration involves making crucial policies, thus is superior to management as the later has an unimportant role in determining objectives and policies. Management only involves executing policies and directing individual efforts for accomplishing pre-determined objectives.
- ❑ **Administration and management are synonymous:** Various authors, such as Newman, Koontz and O'donnell, Henri Fayol, William Newman, Chester Barnard, George Terry, and Louis. A. Allen, do not differentiate between administration and management. **Newman** explains, *Management or administration is the guidance, leadership, and control of the efforts of a group of individuals towards some common goals.* According to **Fayol**, *All undertakings require the same functions and all must observe the same principles. There is one common science which can be applied equally well to public and private affairs. Therefore, the distinction between administration and management is superfluous or academic. In actual practice, the two terms are used interchangeably. The term administration is more popular in government and other public organisations while the word management is more commonly used in the business world, where economic performance is of primary importance.*

Table 2.2 makes clear distinction between management and administration:

TABLE 2.2: DISTINCTION BETWEEN MANAGEMENT AND ADMINISTRATION		
Point of Difference	Administration	Management
Nature	It is a thinking function.	It is a doing function.
Type of Work	It determines major objectives and policies.	It implements objectives and policies.
Levels of Authority	It is a top-level function.	It is a middle and lower level function.
Important Functions	Planning and controlling are the main functions involved in it.	Directing and organising are the main functions involved in it.
Skills Required	Conceptual and human skills are required.	Technical and human skills are required.
Usage	It is used by government, military, educational, and religious organisations.	It is used by business organisations.

**SELF ASSESSMENT QUESTIONS**

11. Administration and management are closely related. (True/False)
12. In the view, administration is different from management; \_\_\_\_\_ is a higher level activity, while \_\_\_\_\_ is a lower level function.

**ACTIVITY**

Using the Internet, find information on the study performed by Henri Fayol on administration vs. management. Prepare a report on the views given by Fayol.

**2.7 MANAGEMENT AS A PROFESSION**

Earlier, you studied the two views on management whether it is a science or art. Apart from this, management is also regarded as a profession. However, it does not possess all the features of a profession. Before discussing management as a profession, let us understand the concept of **profession** in detail.

According to **Webster dictionary**, *Profession is that occupation in which one professes to have acquired specialised knowledge, which is used either in instructing, guiding or advising others.*

Prof. Dalton E. McFarland has given five characteristics of a profession:

1. The existence of a body of specialised knowledge and techniques
2. A formalised method acquiring training and experience
3. Establishment of a representative organisation with professionalism as its goal
4. Ethical codes of conduct
5. Due regards for the priority of a service over the desire for monetary reward

After learning the concept of profession, let us understand whether management is a profession or not. For this, let us compare the features of a profession with that of management:

- ❑ **Existence of body of specialised knowledge and techniques:** A profession has a well-defined area of organised knowledge. Even management deals with the different areas of knowledge such as economics, management, and mathematics. From this knowledge, practical techniques of management are developed. Thus, it can be said that management is a profession as it makes use of techniques formulated through profession.
- ❑ **Formalised methods of acquiring training and experience:** A profession has formal methods of training and experience. Manag-

## N O T E S

ers are selected on the basis of their managerial experience either theoretical or practical. However, it is true that some managers work without experience but their managerial ability always count for their selection.

- ❑ **Establishment of representative professional association:** Every profession has an association with institutes or various professional bodies. These institutes perform the following functions:
  - ◆ Regulate the behaviour of individuals associated with a particular profession
  - ◆ Create a code of conduct to be followed by people in the profession
  - ◆ Prescribe minimum qualifications for the profession

In India, there are different professional institutes, such as Bar Council of India, Institute of Chartered Accountants for Chartered Accountants, and All Indian Management Association, have been established. However, these institutes do not give any professional code of conduct and nor provide proper management techniques. Therefore, it can be said that this characteristic of profession does not matches with management.

- ❑ **Ethical codes of conduct:** Individuals practising a profession are bound to follow a particular code of conduct. This code of conduct involves rules and regulations for guiding the behaviour of individuals. In case of management, there is a code of conduct that has been laid down to ensure the confidentiality of organisations' information and prevent the misuse of such information.
- ❑ **Due regards for the priority of service over the desire for monetary reward:** Professionals are respected in the society as they get remuneration for providing their valuable services to the society. Management as a profession also has certain responsibilities towards the society. Thus, management can also be called profession.

Thus, it can be said that management does fulfil some of the features of a profession.



## SELF ASSESSMENT QUESTIONS

13. \_\_\_\_\_ involves rules and regulations for guiding the behaviour of individuals.
14. Profession does not have any formalised methods of acquiring training and experience. (True/False)



## ACTIVITY

Research the Internet and find out different views on whether management is a profession or not. Give examples related to this study.

## 2.8 SUMMARY

- ❑ Management plans and coordinates the activities of an organisation by making the optimum utilisation of all available resources.
- ❑ Management is a goal oriented, universal, and continuous activity and a result of group effort.
- ❑ Management is science as well as an art because it uses the systematic knowledge of enquiry and practical knowledge for learning methodologies.
- ❑ The functions of management include planning, organising, staffing, directing, and controlling.
- ❑ The activities of an organisation directly affect the environment and its stakeholders, such as customers, suppliers, employees, shareholders, and the society. Corporate Social Responsibility (CSR) is a voluntary approach that monitors and ensures that an organisation adheres to ethical standards and norms.
- ❑ Administration and management involve integrating resources and directing individuals towards the achievement of goals. Some management experts treat administration and management as a separate entity, while some treat both as synonymous.
- ❑ Management can be called a profession because it involves the existence of a body of specialised knowledge and formalised methods of acquiring training and experience.



### KEY WORDS

- ❑ **Management:** An act of planning, directing, organising, and controlling resources to fulfil the predefined objectives
- ❑ **Science:** Knowledge or study in a systematic manner achieved through practice.
- ❑ **Corporate Social Responsibility:** The actions taken by an organisation to serve the interests of members of a society.
- ❑ **Behavioural Science:** Systematic analysis of human behaviour through controlled observation.
- ❑ **Profession:** A practice that requires special skills and qualifications.

## 2.9 DESCRIPTIVE QUESTIONS

1. Discuss the concept of management.
2. Explain the nature of management?
3. Discuss three different views on management and administration?

## N O T E S

4. Write a short note on the functions of management.
5. Elaborate on the responsibilities of an organisation towards its stakeholders.
6. Discuss management as a profession.

## 2.10 ANSWERS AND HINTS

### ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No.	Answers
Definition of Management	1.	7 Ms are men, machine, material, money, methods, market, and motive
	2.	Efficiency and effectiveness
Nature and Purpose of Management	3.	Management is universal
	4.	True
Functions of Management	5.	Art
	6.	Planning
	7.	Staffing
	8.	The main steps of the control function include establishing performance standards, measuring the actual performance, determining gaps between set standards and achieved standards, and taking corrective measures.
Role of Management in Society	9.	b. Corporate Social Responsibility
	10.	Social responsive approach
Management and Administration	11.	True
	12.	Administration, Management
Management as a Profession	13.	Code of conduct
	14.	False

### HINTS FOR DESCRIPTIVE QUESTIONS

1. Management can be defined as a universal phenomenon that involves making optimum utilisation of available resources to achieve the predetermined goals. Refer to Section 2.4 **Definition of Management**.

2. Management is a goal oriented, universal, and continuous process. Refer to Section **2.5 Nature and Purpose of Management**.
3. There are three different views on administration and management, which are: administration is a part of management; administration is different from management; and administration and management are synonymous. Refer to Section **2.8 Management and Administration**.
4. Management involves five main functions, which are planning, organising, staffing, directing and controlling. Refer to Section **2.6 Functions of Management**.
5. When an organisation adopts the principles of CSR, it fulfils its responsibilities towards environment, employees, communities, stakeholders, consumers, and other members of the society. Refer to Section **2.7 Role of Management in Society**.
6. As a profession, management involves the existence of a body of specialised knowledge. Refer to Section **2.9 Management as a Profession**.

## 2.11 SUGGESTED READINGS & REFERENCES

### SUGGESTED READINGS

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# 3

## C H A P T E R

### CORPORATE CULTURE

#### CONTENTS

- 3.1 Introduction
- 3.2 Corporate Culture
  - 3.2.1 Dimensions of Culture
  - 3.2.2 Types of Corporate Culture
  - 3.2.3 Components of Corporate Culture
    - Self Assessment Questions
    - Activity
- 3.3 Conflict between Corporate Culture and Administration
  - Self Assessment Questions
  - Activity
- 3.4 Corporate Culture and Communication
  - Self Assessment Questions
  - Activity
- 3.5 Human Resource and Corporate Culture
  - Self Assessment Questions
  - Activity
- 3.6 Summary
- 3.7 Descriptive Questions
- 3.8 Answers and Hints
- 3.9 Suggested Readings & References

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## INTRODUCTORY CASELET

## LEADERSHIP AT HCL TECHNOLOGIES

Argos is one of the leading multichannel retailers in the UK and Ireland. The organisation operates more than 700 stores. The success story of Argos is attributed to its 340 million website visits a year and its well-defined culture. However, Argos felt a need to create a customer-focused culture, which should be reflected in its business strategy. For this, the organisation decided to make some changes in the existing culture by:

- ❑ Providing friendly and enjoyable customer services.
- ❑ Building well-coordinated teams.
- ❑ Encouraging managers to take ownership of problems.
- ❑ Motivating employees to aim for improvement.

By adopting the above values, the organisation was successful at achieving effective communication and coordination among employees and achieving customer satisfaction. The changes proved to be effective in sharing the organisation's vision and goals among employees. Around 80% of Argos' employees are now aware of their jobs and responsibilities and the expectations of the organisation.



## LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- Discuss the concept of corporate culture
- Explain the dimensions and types of corporate culture
- Identify conflicts arising in organisations
- Explain the relationship between communication and corporate culture
- Describe the role of human resource in strengthening corporate culture

### 3.1 INTRODUCTION

Culture refers to the sum total of human activities performed in a particular context and setting. It is reflected in the behaviours, attitudes, and values shared by people within the boundaries of a social structure. One such structure is organisations where people work together to achieve common goals. In the organisation's context, culture can be defined as a set of values, attitudes, and beliefs that determines how people interact with each other internally and adapt to the external environment. The culture of an organisation is implicit and cannot be expressed but develops over the years from the collective traits of people hired by the organisation.

Corporate culture or organisational culture can evolve from a leader's vision and actions; influential individuals in organisations; work ethics; organisational policies; etc. It is reflected in the values adopted by the organisation's management; approaches to people management; and relationships with shareholders, government, society, customers, and so on. A proper understanding of the concept of corporate culture enables people in organisations to improve organisational performance by solving problems quickly.

The concept of corporate culture gained attention in the late 1980s and early 1990s when American manufacturers failed to compete with their Japanese counterparts. However, the concept has become more important in the today's business environment than it was in the past. Increased competition, globalisation, mergers, takeovers, alliances, and workforce development have made it necessary for organisations to adapt to the following external and internal changes:

- ❑ Coordination and integration across organisations
- ❑ Product, strategy and process innovations
- ❑ Efficient management of workforce diversity
- ❑ Cross-cultural integration of business units
- ❑ Facilitation of teamwork

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An organisation cannot adapt to these changes without an effective corporate culture especially in today's world that is geared towards knowledge-based economy. Many experts believe that the performance of organisations largely depends on their corporate culture as it influences employee decisions and behaviour, creates a sense of belongingness, and facilitates effective communication. In this chapter, let us study about the concept of corporate culture and its importance in detail.

### 3.2 CORPORATE CULTURE

Corporate culture can be defined as the pattern of shared values, beliefs, assumptions, and working habits of people working in an organisation. It creates a working environment in an organisation and forms the basis for interaction between all the elements of the organisation. These elements can be employees, different departments, processes, functions, etc. Different management scholars have defined corporate culture differently. The following are some definitions of corporate culture:



#### DEFINITION

**Martins and Martins (2003)** defines *Organisational culture as a system of shared meaning held by members, distinguishing the organisation from other organisations.*

**Arnold (2005)** defines *Organisational culture is the distinctive norms, beliefs, principles and ways of behaving that combine to give each organisation its distinct character.*

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

**Hofstede et al. (1990)** have defined corporate culture by presenting its seven characteristics, which are:

1. Culture is holistic and cannot be restricted to single individuals rather encompasses a large group of individuals.
2. Culture is historically related and is passed through the traditions and customs of different generations.
3. Culture is stable and cannot be changed easily because it is difficult to change the ideas, values, and traditions of people.
4. Culture is a social phenomenon and is shared by people of various groups. Different groups have different cultures, and culture cannot be dictated by people.

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5. Culture is qualitative not quantitative because it can be implied but not expressly defined.
6. Anthropological words like myth, ritual, symbols, etc. are generally used to characterise the culture.
7. Culture refers to the ways of thinking, values, and ideas of people rather than the concrete, objective, and visible part of an organisation.

Corporate culture is the main aspect of many important organisational concepts such as employee commitment and motivation, resource allocation, competitive advantage, and organisational change. In an organisation, culture enables employees feel comfortable so that they can better work towards the accomplishment of organisational goals. The following points explain the role of corporate culture in an organisation:

- ❑ People working in an organisation interact with each other as per corporate cultural norms; thereby developing a sense of belongingness.
- ❑ Corporate culture enables employees to relate themselves with the values, beliefs and philosophies of the organisation, which makes them committed towards the accomplishment of organisational goals.
- ❑ Corporate culture defines the standard code of conduct for employees in an organisation by providing a set of norms, processes, policies, rules, and regulations.

### 3.2.1 DIMENSIONS OF CULTURE

A multicultural work environment has become a trend of today's globalised business practices. It helps organisations with a global presence to serve their customers effectively from distant locations. However, this new trend gives rise to cultural differences that impact the performance of employees as well as of the organisation. The main problem that people generally face due to cultural differences is to communicate with the other members of their teams especially when they operate from different geographical locations.

Managing cultural differences is a significant challenge for managers. Thus, managers should learn managerial skills required in the multicultural team environment. To manage cultural differences effectively, it is important for managers to consider the various aspects of corporate culture. These aspects are called the dimensions of culture. Organisations use various models to understand and analyse the dimensions of corporate culture. Two commonly used models are Hofstede's five dimensions of culture and Trompenaar's seven dimensions of culture. Let us study about these two models in detail.

## N O T E S

**HOFSTEDE'S FIVE DIMENSIONS OF CULTURE**

This model was developed by Dr. Geert Hofstede as a result of research performed for a decade in 40 countries. Hofstede provided the four dimensions of corporate culture. The fifth dimension was added to this model later on. Figure 3.1 shows these five dimensions:

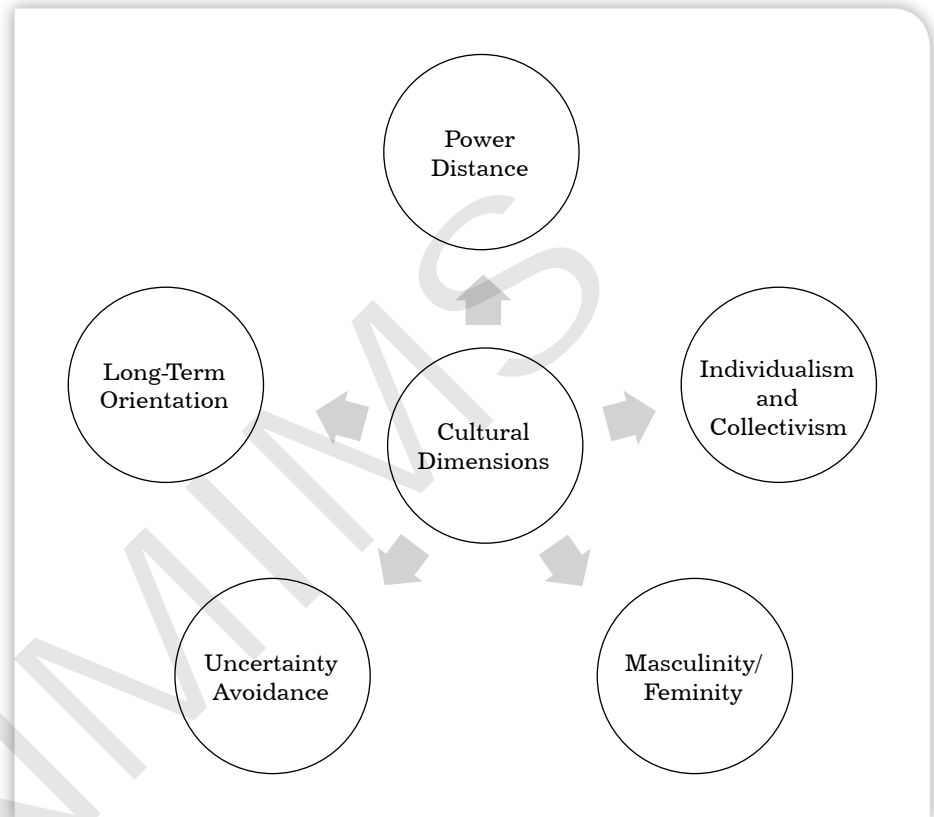


Figure 3.1: Hofstede's Cultural Dimensions

Let us discuss these dimensions in detail.

- ❑ **Power distance:** It refers to the degree of inequality exists in a particular country and is accepted by people. In countries or societies where power distance is high, unequal distribution of power is accepted by the people. On the other hand, in countries having low power distance, power is shared and well dispersed among people. In these countries, the members of a society consider themselves as equals. As per the Hofstede model, Malaysia scores high on power distance. In this country, organisations are characterised by centralised structures where reporting is made directly to the top management. Moreover, there are large gaps in compensation, authority, and respect. On the contrary, in countries with low power distance like Australia, organisations are characterised by decentralised structures and close teamwork.

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- ❑ **Individualism and collectivism:** Individualism refers to the tendency of individuals to give high importance to personal achievement. In individualistic societies, people do not form relations with anyone outside their immediate families. As per this model, the U.S. and Germany are individualistic countries. On the other hand, collectivism refers to the tendency of people to treat themselves as a part of a group. In such societies, people are empowered to make decisions. Countries like Panama and Guatemala are highly collectivistic nations.
- ❑ **Masculinity/femininity:** According to this dimension, there is a division of roles between genders in a society. In masculine societies, values like achievement, power, and materialism are given priority. On the other hand, in feminine societies, values such as compromise, life quality, and friendship have more importance. As per this model, Japan is a highly masculine nation, while Sweden follows a feminine culture.
- ❑ **Uncertainty avoidance:** Uncertainty avoidance depicts the degree of tolerance towards uncertainty and ambiguity in a society. In a country like Germany which scores high on uncertainty avoidance, people like to be safe and take various measures to avoid risks. Such people like to be governed by rules and regulations. On the other hand, in societies with low uncertainty, people willingly deal with changes and challenges. These societies are often governed by fewer rules. An example of such society is Denmark.
- ❑ **Long-term orientation:** This refers to the extent people are willing to value long-term traditions. In countries, where long-term orientation is high, people adopt those practices and values that prevail in the future too. On the other hand, countries with low long-term orientation, people like to stick to those traditions that have been in the past and present. Long-term orientation is high in Japan, while African countries have low long-term orientation.



## NOTE

The Hofstede model may become invalid in those countries where there is more than one culture.

### TROMPENAAR'S SEVEN DIMENSIONS OF CULTURE

A Dutch theorist Trompenaar along with his partners Hampden-Turner developed another model to analyse cultural dimensions. This model can be used for developing cross-cultural communication in businesses.

## N O T E S

The model has seven dimensions, which are shown in Figure 3.2:

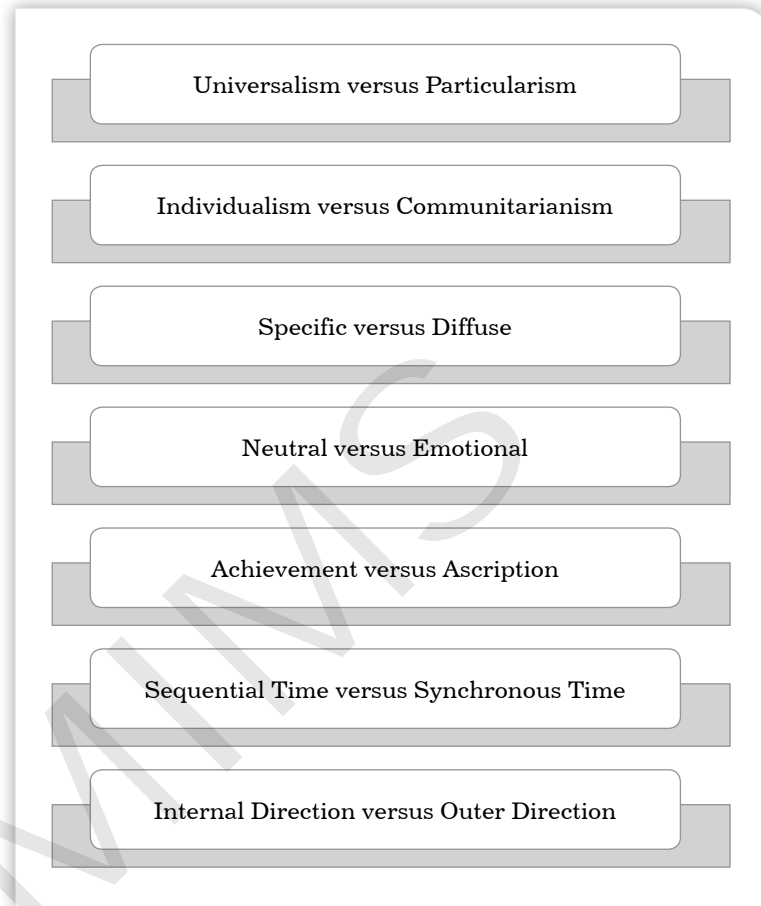


Figure 3.2: Trompenaar's Seven Dimensions of Culture

Let us discuss these dimensions in detail.

- ❑ **Universalism versus particularism:** In universal culture societies, high regard is given to rules, laws, and regulations. People in such societies prefer relationships that are based on rules. For example, the U.S. and Canada show high universal culture. On the other hand, in societies where particularism is high, people believe in forming social relations and have no concern for rules. Russia is an example of particular culture.
- ❑ **Individualism versus communitarianism:** Societies that show high individualistic culture provide freedom to people. In such culture, people are empowered to make decisions and are the promoters of creativity. Example of such culture is the U.K. However, in a communitarian culture, people like to be in groups and subordinate individual goals to a common good. Japan is an example of communitarian culture.



## N O T E S

- ❑ **Specific versus diffuse:** In specific culture, personal and professional lives are separated. People believe in attaining their objectives and follow specified rules. For example, Germany exhibits specific culture. On the other hand, people in diffuse culture like to form bonds in their professional lives too. Example of diffuse culture is India and Russia.
- ❑ **Neutral versus emotional:** In neutral culture, people find it difficult to express themselves and limit their interactions. For example, the U.K. and Sweden are neutral culture countries. In emotional culture, people have high regard for emotions and are willing to express their feelings. They also believe in making a rapport with other people. Italy and France are examples of emotional culture.
- ❑ **Achievement versus ascription:** In achievement-oriented countries, people focus on achieving goals and reward good performance. Here, a person's position and power is not important. For example, Canada exhibits achievement culture. However, in ascription-oriented culture, people have high concern for position and title. Italy is an example of ascription culture.
- ❑ **Sequential time versus synchronous time:** In sequential time culture, high regard is given to events that are planned in a sequence. An example of such culture is the U.S. On the other hand, in synchronous time culture, people focus on flexibility and do not lay emphasis on sequential events. Argentina is an example of synchronous culture.
- ❑ **Internal direction versus outer direction:** People in internally directed control cultures focus on self-control as well as on controlling the environment. For example, the U.K and U.S. exhibit internal direction culture. However, in outer direction culture, people believe in being controlled by the environment. An example of such culture is China.

### 3.2.2 TYPES OF CORPORATE CULTURE

In an organisation, corporate culture plays a vital role in bonding people. There are different cultures present across organisations depending on their vision, philosophy, and values. Moreover, there can be more than one culture existing in organisations. Irrespective of its type, culture prevails in an organisation in the form of dominant culture and subculture. Dominant culture is present predominantly in an organisation and shared by all its employees, while subculture is limited to a particular department or division of the organisation. Apart from this, there are various types of cultures that can be found in an organisation.

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Some of them are shown in Figure 3.3:

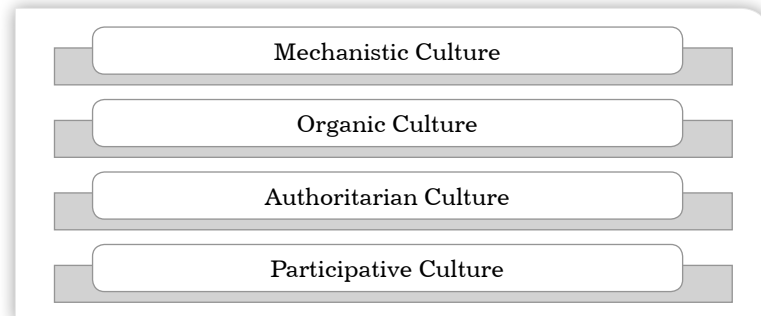


Figure 3.3: Types of Corporate Cultures

Let us study about some important types of corporate culture.

- ❑ **Mechanistic culture:** This type of culture is static in nature where emphasis is laid on following stringent rules and regulations. Organisations that inculcate this culture mainly adopt bureaucratic administration to manage their employees. In such organisations, employees cannot communicate their problems, doubts, and grievances to their superiors. All the decisions are taken by the top management and passed to the lower management through specified channels. In such culture, change is not embraced easily.

Mechanistic culture generally does not allow change in the structure. This is mainly due to a lack of innovation and creativity in the organisational structure. Moreover, the need for quick decision analysis is also not needed in organisations following mechanistic culture. Examples of organisations using mechanistic structures include colleges and universities, where they have strict procedures to maintain student's loyalty or obedience towards the institute. Similarly, law firms, auditing firms, etc. also follow mechanistic culture, where working procedures are already laid down in a formal way and people work accordingly.

- ❑ **Organic culture:** This type of culture focuses on the accomplishment of tasks through the collective efforts of people rather than compliance with rules. Organisations that adopt organic culture lay emphasis on teamwork. People working in such organisations are free to share their ideas and convey their concerns to their superior. Organic culture focuses on using flexible working methods and promoting innovations.

Organic culture encourages employees to have greater creativity and better problem solving attitude. Example of organisation with organic culture is Google Corporation that always encourages its employees to develop creative skills for solving problems and developing new products.

- ❑ **Authoritarian culture:** In this culture, top-level managers take all decisions that have to be followed by subordinates. This culture is

based on a belief that leaders have complete knowledge and they cannot take any wrong decision. In case of disobedience, employees are penalised so that the same mistake cannot be repeated in the future.

A striking example is the New York Times that, in the past, used to be one of the top companies having authoritarian culture. During the 1970s, the New York Times was controlled by A. M. Rosenthal, who was considered a famous authoritarian leader and used his authoritarian control to meet deadlines on a regular basis.

- ❑ **Participative culture:** Participative culture promotes total participation of people in the decision-making process. This culture is based on an assumption that people are important to the accomplishment of tasks, and if they are involved in decision making, the chances of their resistance are reduced. Thus, in this culture, people are encouraged to freely share their opinions and ideas.

An organisation with participative culture has more open flow of communication with lesser formal rules and regulations. For example, the corporate culture of the Southwest Airlines tends to be more participative in nature. Southwest has an employee centric organisational culture that helps in motivating employees to mix work with fun, which in turn, has resulted in delivering excellent service to customers.

### 3.2.3 COMPONENTS OF CORPORATE CULTURE

So far, you have studied the importance of a strong corporate culture in an organisation. But what makes a corporate culture? There are a number of components involved in building an effective corporate culture. Figure 3.4 shows some of the main components of corporate culture:

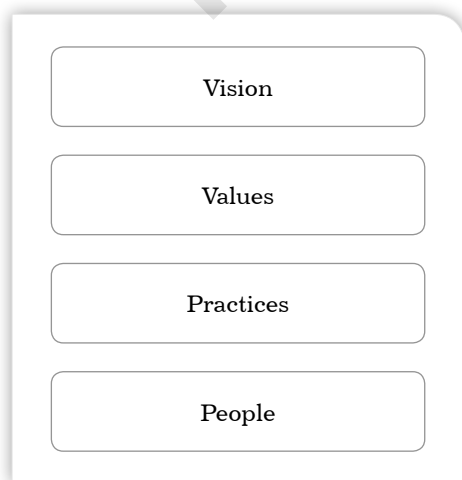


Figure 3.4: Components of Corporate Culture

## N O T E S

Let us discuss about these components in detail.

- ❑ **Vision:** To build a strong corporate culture, an organisation first needs to have a vision statement that clearly describes the reason for the organisation's existence. The vision statement represents what an organisation intends to be in the future. For example, the vision of an online retailer can be *"to provide the best online shopping experience to customers with easy-to-follow instructions, clear and secure payment methods, and fast, quality delivery."* If the employees of an organisation are aware of its vision, they would quickly adapt the organisational culture and work towards the accomplishment of organisational goals and objectives.
- ❑ **Values:** The heart of corporate culture lies in the values of an organisation. Values are a set of beliefs and ideals shared by individuals in an organisation. These values develop the behaviour and attitude of the organisation's individuals. For example, Tata Motors lay emphasis on a set of values that are centred on innovation, integrity, customer satisfaction, and concern for environment.
- ❑ **Practices:** The values of an organisation hold no relevance unless they are incorporated in practices. For example, if an organisation promotes the values of care and respect, these values must be incorporated in the practices. This can be done by providing employees a platform where they can work, interact, and share their opinions with their superiors without fear. These practices must be reviewed from time to time for further modifications.
- ❑ **People:** No organisation can build a culture without having people to share their beliefs and embrace them. People who believe in the culture of their organisations tend to stay long and show high commitment towards achieving organisational goals. Therefore, many organisations follow stringent policies to recruit fresh talents who are not only qualified but also fit the organisational culture. For instance, if the organisation has bureaucratic culture, employees may remain dependent on their superiors. As a result, employees may lack in motivation and enthusiasm to work toward organisational goals and objectives. Therefore, organisations should take actions for making their employees adapt to their corporate culture.



## SELF ASSESSMENT QUESTIONS

1. "Organisational culture is the distinctive norms, beliefs, principles and ways of behaving that combine to give each organisation its distinct character". Identify the speaker of these words.
 

a. Edgar Schien	b. Arnold
c. Hofstede	d. Trompenaar

## N O T E S

2. \_\_\_\_\_ defines the standard code of conduct for employees in an organisation by providing a set of norms, processes, policies, rules, and regulations.
3. Name the theorist who provided seven cultural dimensions?
4. In which type of culture, a leader takes all decisions on behalf of a group/organisation?
  - a. Mechanistic culture
  - b. Authoritarian culture
  - c. Organic culture
  - d. Subculture
5. The values of an organisation hold no relevance unless they are incorporated in practices. (True/False)



## ACTIVITY

Compare the cultures adopted by Toyota Motors and Ford Motors. Prepare a report based on the comparison.

## 3.3

### CONFLICT BETWEEN CORPORATE CULTURE AND ADMINISTRATION

In an organisation, individuals belonging to different culture come together and engage in dialogue with each other. Various cultures bring different beliefs, ideologies, values, and perceptions. This may result in conflicts and makes it difficult for individuals to work together.

It is often observed that the culture of individuals shapes their personality and is reflected in their behaviour. The culture also influences the organisation's policies and its attitude towards employees. Therefore, it becomes imperative for the organisation to develop such a corporate culture that people from different backgrounds can gel with each other and work harmoniously.

A very common example of conflicts arising in organisations is due to discrimination on the basis of colour, sex, and caste. Sometimes managers become biased for the employees who belong to the same cultural background. As a result, other employees may feel victimised and lose morale, which is detrimental to the growth of the organisation in the long term. Moreover, employees may begin to look for other opportunities.

Apart from this, there are many other types of conflicts that may arise in organisations due to cultural differences. Figure 3.5 shows some of these conflicts:

## N O T E S



Figure 3.5: Types of Cultural Conflicts

Let us study about these conflicts in detail.

- ❑ **Interpersonal conflicts:** These types of conflicts arise as a result of clashes between two or more individuals in an organisation. The individuals can be in the same department or from different departments. Interpersonal conflicts are classified into three categories, which are:
  - ◆ **Vertical conflicts:** These conflicts arise between a manager and his/her subordinates on various issues.
  - ◆ **Lateral conflicts:** These conflicts arise between any two individuals at the same position.
  - ◆ **Diagonal conflicts:** These conflicts arise between people at different positions without any direct superior-subordinate relation.
- ❑ **Intrapersonal conflicts:** These conflicts may take place between two individuals having clashes in thoughts, principles, or ideologies. Individuals having such conflicts often become irritable or erratic. As a result, their professional performance is negatively affected.
- ❑ **Intergroup conflicts:** These types of conflicts arise when there are clashes between different groups in an organisation. These groups can be either formal or informal.
- ❑ **Intragroup conflict:** These conflicts arise mainly between people within a group or department. Intragroup conflicts affect the performance of the whole group as a whole.

Irrespective of their type, conflicts may have serious impact on the performance of individuals and the organisation. However, these conflicts can have some positive impact too, such as increase in individuals' performance due to competitive feeling, minimisation of distance among people, clarification of old problems, and generation of new ideas.

However, whether the impact of administrative conflicts will be positive or negative depends on how effectively these conflicts are managed. If management ignores conflicts for a long time, it may affect the performance of employees, which would ultimately impact the organisation's performance. To manage conflicts, there are a number of techniques used by organisations. Figure 3.6 shows some of the important techniques of conflict resolution:

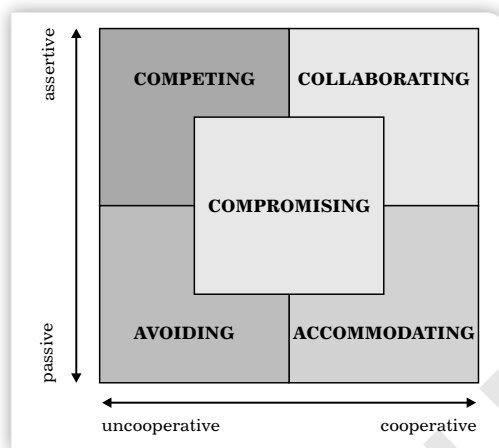


Figure 3.6: Conflict Resolution Techniques

(Source: <http://www.task.fm/conflict-resolution-skills>)

Let us discuss these techniques in detail.

- ❑ **Avoiding:** In this technique, people avoid conflicts by simply changing the topic or denying any situation that may lead to a problem. This style is adopted in organisations where members or groups do not wish to indulge in any arguments or rivalries with other members. There can be many reasons for avoidance, such as no intention of getting stressed due to conflicts or hurting others' feelings. This is the most ineffective style of resolving administrative conflicts.
- ❑ **Accommodating:** In this technique, an individual shows high concern for others' needs as compared to his/her own needs. The accommodating style is adopted in organisations where individuals are willing to form social relationships with other individuals. Employees with this style often give into the demands of other members to keep them happy.
- ❑ **Competing:** Individuals with this style are highly assertive in nature and take a stand for what they know and want. Such people like to dominate others in case of conflicts. This style can be used during emergencies when quick decisions are to be made for resolving conflicts.
- ❑ **Collaborating:** In this technique, individuals or groups are willing to work together to achieve common goals. This style often results in a win-win situation for an organisation and is the most efficient approach for resolving conflicts.

## N O T E S

- ❑ **Compromising:** In this technique, individuals or groups try to satisfy themselves partially. In compromising, people believe in the give and take approach in which they try to reach agreeable terms. This style is adopted by organisations when both opposite parties are equally strong and there is a deadline looming over them.



## SELF ASSESSMENT QUESTIONS

6. Sometimes people belonging to one culture stereotype people from different cultural backgrounds. (True/False)
7. What type of conflict arises between a manager and his/her subordinates on various issues?
  - a. Vertical conflict
  - b. Lateral conflict
  - c. Diagonal conflict
  - d. Horizontal conflict
8. In which technique, people avoid conflicts by simply changing the topic or denying any situation that may lead to a problem?
9. The collaborating style is adopted by organisations when both opposite parties are equally strong and there is a deadline looming over them. (True/False)



## ACTIVITY

Using the Internet, find out the conflict management techniques/measures adopted by Maruti Udyog Pvt. Ltd.

## 3.4

**CORPORATE CULTURE  
AND COMMUNICATION**

The effectiveness of a corporate culture depends on the way people interact with each other, information is shared, and decisions are made in an organisation. Thus, good communication is a key characteristic of corporate culture. Effective communication helps in running internal processes smoothly and establishing positive relationships among people within and outside the organisation. Moreover, employees would only be motivated to adapt to the corporate culture if there is transparency in communication across the organisation.

Effective communication is of paramount importance for maintaining the smooth functioning of the organisation. For this, the organisation must allow two-way communication wherein seniors and subordinates can interact with each other and discuss important issues without any hesitation. Such communication helps in creating harmony among people of the organisation. This in turn leads to a strong cor-



## N O T E S

porate culture where all the employees perform to the best of their capabilities. Therefore, both corporate culture and communication go hand-in-hand to make a successful organisation.

Some of the measures that can be taken by organisations to improve communication in order to create a strong corporate culture are as follows:

- ❑ There must be more than one channel of communication so that there are no delays in the delivery of the message. Some of the important channels that can be used for effective communication are e-mail, fax, memos, notices, bulletins, one-to-one interactions, etc.
- ❑ Important messages must be repeated from time to time so that they can reach all the targeted people.
- ❑ There should be effective listening at the receiver's end. This is because poor listening may lead to ineffective implementation of the message conveyed.
- ❑ Employees must convey their feedback in the form of questions, doubts, or suggestions. In this way, employees can understand the intended meaning of the message and managers are also assured that the correct message has been delivered.
- ❑ Managers must handle problems that arise due to cultural differences. In the absence of conflict resolution, misunderstandings and confusions arise that may be detrimental to the organisation's functioning and performance.



## SELF ASSESSMENT QUESTIONS

10. The effectiveness of a corporate culture depends on the way people interact with each other, information is shared, and decisions are made in an organisation. (True/False)
11. Which of the following is not a measure of improving communication in organisations?
  - a. There must be only one channel of communication.
  - b. Important messages must be repeated from time-to-time.
  - c. There should be effective listening at the receiver's side.
  - d. Employees must convey their feedback.
12. Who is responsible for handling problems that arise due to cultural differences in organisations?



## ACTIVITY

Study the communication structure of any organisation of your choice. Prepare a report on how the communication structure of the organisation impacts its culture based on your study.

## N O T E S

### 3.5 HUMAN RESOURCE AND CORPORATE CULTURE

As discussed earlier, in an organisation, people having different values and beliefs work together to achieve common goals and objectives. These differences may lead to various conflicts, which ultimately affect organisational performance. These differences can be better managed if people are aware of the organisational culture from the day they join the organisation. This can be possible if the corporate culture is reflected in the HR practices of the organisation. Figure 3.7 shows some important HR practices that can help in strengthening the culture of an organisation:

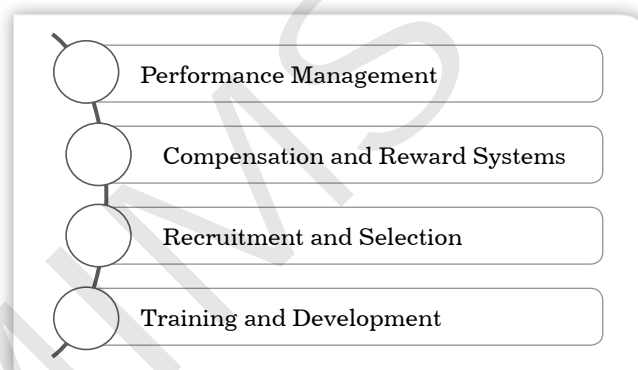


Figure 3.7: HR Practices Reflecting Corporate Culture

Let us study about these practices in detail.

- ❑ **Performance management:** It is a continuous process of improving employees' performance by setting performance standards and expectations and communicating them to employees. Performance management is actually a platform where employees can share their ideas and suggestions for the improvement of their performance. This free exchange of ideas and suggestions ultimately helps an organisation to build strong corporate culture.
- ❑ **Compensation and reward systems:** In any organisation, compensation and reward systems are the important motivating forces for employees. Employees are always keen to perform well if their performance is recognised and awarded from time to time. In case it does not happen, they may lose their interests in performing their jobs, which may have an adverse effect on corporate culture. Thus, in order to create a positive corporate culture, HR professionals must develop pay and reward programs carefully by taking into account both the behavioural and performance aspects of individuals.
- ❑ **Recruitment and selection:** While hiring fresh talents, HR professionals should look for employees who not only possess appropriate skills and capabilities but also have a perfect cultural fit. For

this, HR professionals should themselves clearly understand the organisation's culture.

Apart from this, while hiring and interviewing candidates, HR professionals must focus on cultural fit questions. For instance, questions must be asked on team coordination, conflict resolution, accomplishment of goals, behavioural aspects, etc. This would help HR professionals to hire a pool of efficient employees.

- ❑ **Training and Development:** Another important way of creating a strong culture is to conduct behavioural orientation. In such orientation, employees are informed about the organisation's code of conduct and ethical values. Moreover, they are trained on how to adapt to the organisational culture.

In addition, HR professionals must plan development opportunities for those employees who behave as per the organisation's culture and requirements. In this way, the culture of the organisation is strengthened.



#### SELF ASSESSMENT QUESTIONS

13. \_\_\_\_\_ is actually a platform where employees can share their ideas and suggestions for improvements.
14. In \_\_\_\_\_, employees are informed about the organisation's code of conduct and ethical values.



#### ACTIVITY

Hold a discussion with the head of the HR department of an IT firm of your choice on the HR practices implemented in the firm to strengthen the corporate culture. Also, provide your suggestions on the practices followed in the firm.

### 3.6 SUMMARY

- ❑ Corporate culture can be defined as the pattern of shared values, beliefs, assumptions, and working habits of people in an organisation. It enables employees to develop a sense of belongingness towards the organisation.
- ❑ To understand the complexities of cultural differences, two models are widely used namely Hofstede's five dimensions of culture and Trompenaar's seven dimensions of culture.
- ❑ In the Hofstede's five dimensions of culture, the dimensions are power distance, individualism and collectivism, masculinity/femininity, uncertainty avoidance, and long-term orientation.

## N O T E S

- ❑ In Trompenaars's model, dimensions are universalism versus particularism, individualism versus communitarianism, specific versus diffuse, neutral versus emotional, achievement versus ascription, sequential time versus synchronous time, and internal direction versus outer direction.
- ❑ In organisations, various cultures are present, such as mechanistic culture, organic culture, authoritarian culture, and participative culture.
- ❑ A strong corporate culture has four main components, which are vision, values, practices, and people.
- ❑ In an organisation there can be various types of conflicts arising due to cultural differences among employees. The types of conflicts are interpersonal conflicts, intrapersonal conflicts, intergroup conflicts, and intragroup conflicts.
- ❑ In order to resolve different types of conflicts in organisations, various techniques are used such as avoiding, accommodating, competing, collaborating, and compromising.
- ❑ The culture of an organisation requires a transparent communication system to enhance cooperation among employees.
- ❑ To strengthen corporate culture, HR professionals adopt various practices, such as performance management, compensation and reward systems, recruitment and selection, and training and development.



## KEY WORDS

- ❑ **Anthropology:** The branch of science that deals with the study of humankind. It mainly includes study of origins, cultures, biological development, and beliefs of humans.
- ❑ **Bureaucratic administration:** A type of administration in which all organisational rules, procedures, and policies are decided by top management and passed to lower management.
- ❑ **Cultural differences:** Variations in the cultures of individuals due to differences in racial or ethnic backgrounds, language, dress and traditions.
- ❑ **Cultural fit:** A quality of an employee to adapt to the culture of an organisation.
- ❑ **Give and take approach:** An exchange process for negotiating or bargaining in which both parties receive something useful.
- ❑ **Globalisation:** The cross-border integration of businesses and exchange of goods and services or resources between nations.

### 3.7 DESCRIPTIVE QUESTIONS

1. Define the concept of corporate culture.
2. Explain the cultural dimensions of the Hofstede's model.
3. How many types of cultures can be present in organisations? Explain.
4. Name the conflicts that may arise due to cultural differences in organisations? Explain them in detail.
5. Discuss the measures that can be taken by organisations to improve communication.
6. Describe how HR practices can help in strengthening the culture of an organisation?

### 3.8 ANSWERS AND HINTS

#### ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No.	Answers
Corporate Culture	1.	a. Edgar Schien
	2.	Corporate culture
	3.	Trompenaar
	4.	b. Authoritarian culture
	5.	True
Conflict Between Corporate Culture and Administration	6.	True
	7.	a. Vertical Conflict
	8.	Avoiding
	9.	False
	10.	True
Corporate Culture and Communication	11.	a. There must be only one channel of communication
	12.	Manager
Human Resource and Corporate Culture	13.	Performance management
	14.	Behavioural orientation

## N O T E S

**HINTS FOR DESCRIPTIVE QUESTIONS**

1. Corporate culture can be defined as a combination of shared values, beliefs, and assumptions that defines the behaviour of employees. Refer to Section **3.4 Corporate Culture**.
2. The cultural dimension model developed by Dr. Geert Hofstede consists of five dimensions, namely power distance, individualism and collectivism, masculinity/femininity, uncertainty avoidance, and long-term orientation. Refer to Section **3.4 Corporate Culture**.
3. There are four types of cultures that are mainly present on organisations namely mechanistic culture, organic culture, authoritarian culture, and participative culture. Refer to Section **3.4 Corporate Culture**.
4. There are four types of conflicts that may arise in organisations due to cultural differences, namely interpersonal conflict, intrapersonal conflict, intergroup conflict, and intragroup conflict. Refer to Section **3.5 Conflict between Corporate Culture and Administration**.
5. To improve communication in an organisation, there must be more than one channel for delivering the message successfully and the message must be repeated. Refer to Section **3.6 Corporate Culture and Communication**.
6. Corporate culture can be strengthened if it is reflected in HR practices such as performance management, compensation and reward systems, recruitment and selection, and training and development. Refer to Section **3.7 Human Resource and Corporate Culture**.

**3.9 SUGGESTED READINGS & REFERENCES****SUGGESTED READINGS**

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NMIMS



# 4

## C H A P T E R

### STRUCTURE OF AN ORGANISATION

#### CONTENTS

- 4.1 Introduction
- 4.2 Concept of Organisational Structure
  - 4.2.1 Six Box Organisational Model
  - 4.2.2 Matrix or Mixed Model
  - 4.2.3 Other Organisational Models
    - Self Assessment Questions
    - Activity
- 4.3 ETZIONI Organisational Theory
  - Self Assessment Questions
  - Activity
- 4.4 Factors Influencing Organisational Structure
  - Self Assessment Questions
  - Activity
- 4.5 Summary
- 4.6 Descriptive Questions
- 4.7 Answers and Hints
- 4.8 Suggested Readings & References

## N O T E S

## INTRODUCTORY CASELET

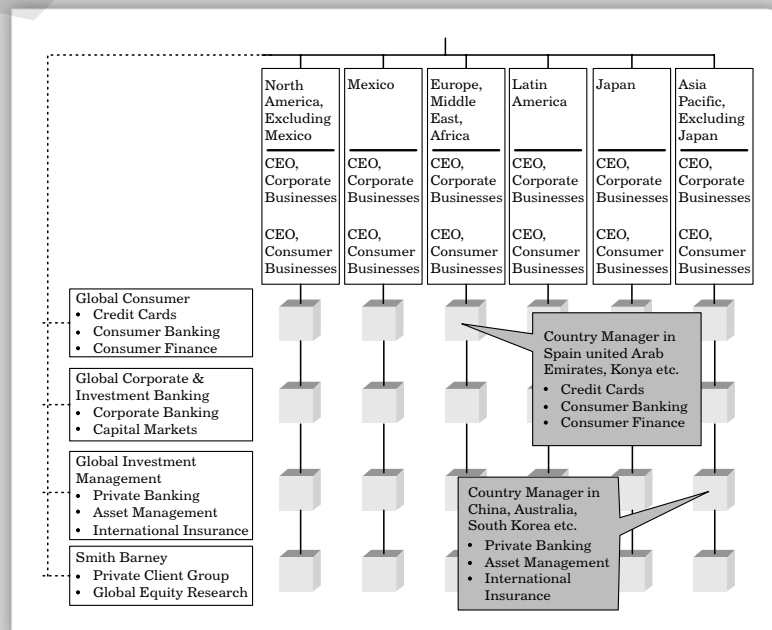
## ORGANISATIONAL MODEL OF CITIGROUP

Citigroup, a global financial services provider, deals in more than 100 countries and holds more than 200 million customer accounts. Its services include consumer banking, corporate banking, investment banking, global wealth management, financial analysis, and private equity. Apart from this, the organisation is also popular for its credit cards.

In 2008, Vikram Pandit, the CEO of Citigroup, announced the restructuring of the organisation for expanding its customer base and achieving global product excellence and clear accountability. The main goals of the organisation were to achieve operational efficiency and improve decision making.

The consumer group was reorganised in to two divisions namely consumer banking and global cards. As per **Pandit**, *Our new organizational model marks further important step along the path we are pursuing to make Citi a simpler, leaner and more efficient organisation that works collaboratively across the businesses and throughout the world to benefit clients and shareholders. With this new structure, we reinforce our focus on clients by moving the decision-making process as close to clients as possible and assigning some of our strongest talent to lead the regional areas and global product groups.*

The following figure shows the matrix organisational structure used by Citigroup that accounts for the organisation's corporate and consumer banking businesses:



(Source: Williams, C. (2006). Effective Management. : Thomson Learning.)

**INTRODUCTORY CASELET****N O T E S**

As shown in the figure, Citigroup uses the geographic customer structure. The country managers of the organisation are required to report to their respective regional CEOs. Further, the organisation has divided its product structures into consumer banking and consumer finance, global investment management, private banking, etc.

The matrix structure is created by the combination of geographic and product structures. This structure is different from the traditional organisational structure as:

- ❑ Most employees report to two bosses. For instance, the French country manager would report to the regional CEO in Europe, Middle East and Africa.
- ❑ The matrix structure leads to cross-functional interaction between employees. The matrix departmentation has helped Citigroup to manage large tasks easily.

## N O T E S



## LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- Discuss the concept of organisational structure
- Explain the six box organisational model and matrix model
- Elaborate on the ETZIONI organisational theory
- Identify the factors influencing organisational structure

## 4.1 INTRODUCTION

Consider a scenario of an organisation where employees are not clear about their roles and responsibilities. In such organisation, there would be chaos in work processes, conflicts among employees, wastage of resources, inefficient operations, and poor productivity. Moreover, project and administrative responsibilities would often be neglected. These problems can be prevented by having an effective **organisational structure** in place. An organisational structure is a framework that divides, organises, and coordinates the different activities of an organisation. In other words, it is a hierarchy in which tasks are allocated to individuals to achieve organisational goals and objectives.

An effective organisational structure clarifies roles and responsibilities, levels of authority, and supervisory or reporting lines in an organisation. Moreover, it enables managers to determine which resources are available and in what quantities and how they should be employed in order to produce the desired output. On the contrary, a weak organisational structure would have an adverse impact on the collaborative effort of employees and the competitive position of the organisation.

In an organisation, there are many interrelated components that decide the effectiveness of the organisational structure. Thus, these components should be considered by the organisation while developing its structure. These components are:

- ☐ Clear vision and prioritisation of organisational activities
- ☐ Effective leadership and high performance values
- ☐ Clear roles and responsibilities for decision making
- ☐ Strengths of the organisation and employee skills necessary for success
- ☐ Performance measures against organisational objectives
- ☐ Effective execution of work processes
- ☐ Fast response to changes in the dynamic business environment

In this chapter, let us study about the concept of organisational structure and its importance.

## 4.2 CONCEPT OF ORGANISATIONAL STRUCTURE

An organisational structure can be defined as the logical arrangement of tasks, duties, and roles and responsibilities with the aim to achieve the predetermined objectives of the organisation. In the words of **Kast and Rosenzweig**, *structure is the established pattern of relationships among the component parts of the organisation*. An organisational structure intends to promote coordination among individuals in the organisation by clearly defining the reporting structure (who will work under whom). It also defines interpersonal relationships between individuals and their jobs.

An organisational structure is broadly categorised into types, namely centralised structure and decentralised structure. In centralised structure, decisions are taken at the top level management and passed to the lower level management. On the other hand, in a decentralised structure, departments are given autonomy to make their own decisions depending on their requirements. Generally, the centralised structure is found in small-scale organisations where there is less hierarchy, while the decentralised structure is followed by organisations having worldwide presence and where it is impossible to make decisions at the central level. Figure 4.1 shows an example of organisational structure:

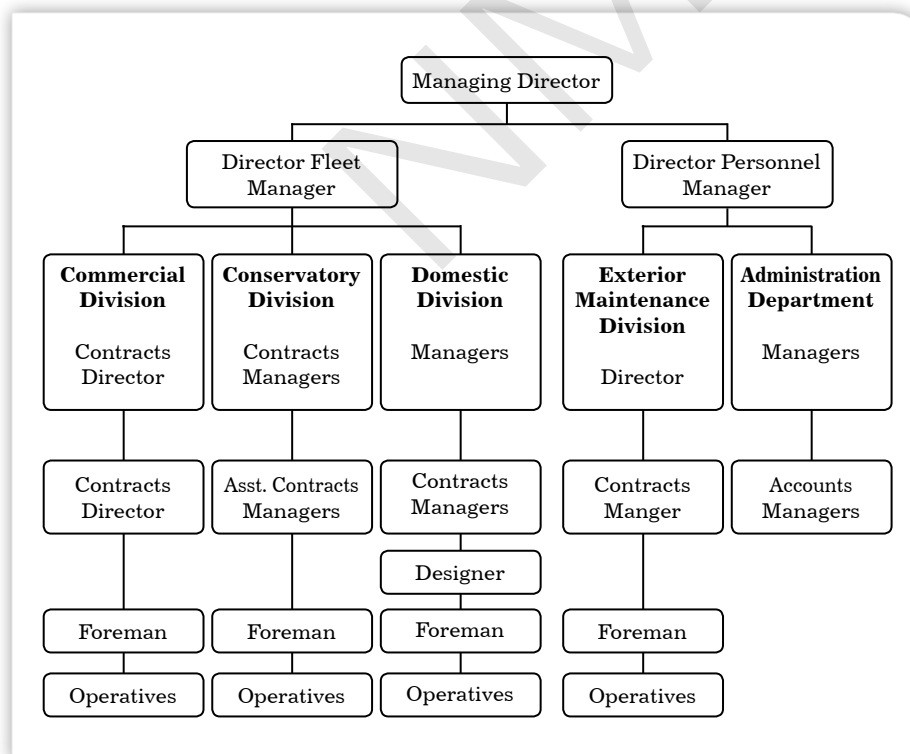


Figure 4.1: An Example of Organisational Structure

(Source: [www.emeraldinsight.com](http://www.emeraldinsight.com))

## N O T E S

An effective organisational structure represents the arrangement of activities, individuals responsible for performing these activities, co-ordination between individuals and departments, and optimal utilisation of resources. The following are some characteristics of an effective organisational structure:

- ❑ **Simple and unambiguous:** The structure of an organisation should have a minimum chain of command so that unnecessary confusions and chaos can be avoided. Having more than one supervisor can lead to communication gaps and inefficient monitoring. Thus, the chain of command should flow from a single superior to his/her subordinates.
- ❑ **Flexible and adaptable:** As the business environment is dynamic, the organisational structure should be created in a manner that it can readily be altered as per the changing needs and demands.
- ❑ **Clarity of roles:** Every employee should know the authority–responsibility relation whether from top to bottom or horizontal. This would help employees to know to whom they need to report and perform their roles and responsibilities effectively.
- ❑ **Involvement of top management:** The participation of top management is crucial to the development of an organisational structure. This is because the most important elements, such as organisational objectives, functions, and policies, are decided by the top management.

To maintain effective structures, organisations are required to follow certain principles. These principles are explained as follows:

- ❑ **Division of work:** The structure of an organisation should be designed in a manner that every employee should be allotted work as per his/her abilities, skills, and competencies. This helps employees in achieving specialisation in a particular work; thereby increasing their efficiency.
- ❑ **Unity of command:** An employee who is given multiple commands causes difficulty for the employee in decision making, which, in turn, affects his/her performance. Thus, there should be a single line of command in an organisation.
- ❑ **Principle of departmentation:** Departmentation involves dividing a large organisation into smaller units (called departments) as per specialised functions. Departmentation helps in making the managerial functions easier and brings work specialisation.
- ❑ **Principle of authority:** The overall authority of the organisation must be broken down into departments, divisions, or/and functions. Authority helps in supervising the performance of subordinates, and monitoring and controlling organisational activities.
- ❑ **Span of management:** It implies the number of subordinates supervised by one manager. There should be adequate number of

subordinates under a manager. The number of subordinates under a manager depends on the ability of the manager and the subordinates, nature of work, objectives to be achieved, etc.

- ❑ **Scalar chain:** It is the line of command that shows the flow of information among employees at different levels in the organisational structure. This chain specifies the mode through which information should be flown from higher authority to lower authority. Effective flow of information makes employees aware of their roles and responsibilities.
- ❑ **Unity of purpose:** Every organisation strives to meet its purpose. This can be possible if the top management clearly communicates its purpose to its employees so that they can also work towards to accomplish that purpose.
- ❑ **Principle of flexibility:** The change is inevitable in any organisation. Thus, the structure of an organisation should be flexible enough to adapt to the necessary changes made in the internal and external environment of the organisation.
- ❑ **Principle of synergy:** Synergy implies that the efforts of all individuals should result in more than the sum of individual output. The networking of individuals in an organisational structure must lead to synergy.
- ❑ **Principle of team spirit:** Team spirit in an organisation makes employees understand the behaviour of each other and learn to accept each other's differences. An effective organisational structure requires coordination of employees to serve the common purpose, which can be possible if team spirit is inculcated among them.

Some guidelines that organisations must follow while developing their organisational structure are given below:

- ❑ **Defining clear goals and objectives:** An organisation should clearly define its goals and objectives while developing its structure. Clear and discrete goals help team members enable individuals to understand their job roles and responsibilities.
- ❑ **Determining the appropriate type of organisational structure:** An organisation should select a suitable type of organisational structure depending on the authority-responsibility structure used by it. For example, in a centralised organisational structure, the top to down approach is followed to assign tasks and responsibilities to individuals.
- ❑ **Defining the scalar chain of command:** The chain of command should be properly decided in an organisational structure. For instance, if there is a single leader, the chain of command would be unitary, which means functions and roles would be delegated by a single person. On the other hand, if there are multiple heads, the delegation of functions and roles of individuals would be divided into various heads and there would be multiple commands of authorities.

## N O T E S

**4.2.1 SIX BOX ORGANISATIONAL MODEL**

The six-box model was developed by an American analyst Marvin Weisbord in 1976 to evaluate the functioning of organisations. It is a framework that represents the concerns to be addressed by organisations while designing their structures. This model views organisations from formal and informal perspectives.

In this model, Weisbord gave six broad categories of organisational life, including purposes, structures, relationships, leadership, rewards and helpful mechanisms. According to Weisbord, the purpose of an organisation includes the organisation's mission and goals. On the other hand, structure could be defined as the way of organising the organisation; this could be on the basis of function, product, program or project. Weisbord defined relationships as the ways in which people and units interact with each other. Rewards could be in the form of intrinsic and extrinsic rewards that people associate with their work. Leadership could be defined as typical leadership tasks that help in creating balance among different categories of organisational life. Finally, the helping mechanisms, according to Weisbord, are the planning, controlling, budgeting and information systems that help in meeting organisational goals. Figure 4.2 highlights six critical areas that are important for the functioning and designing of an organisation:

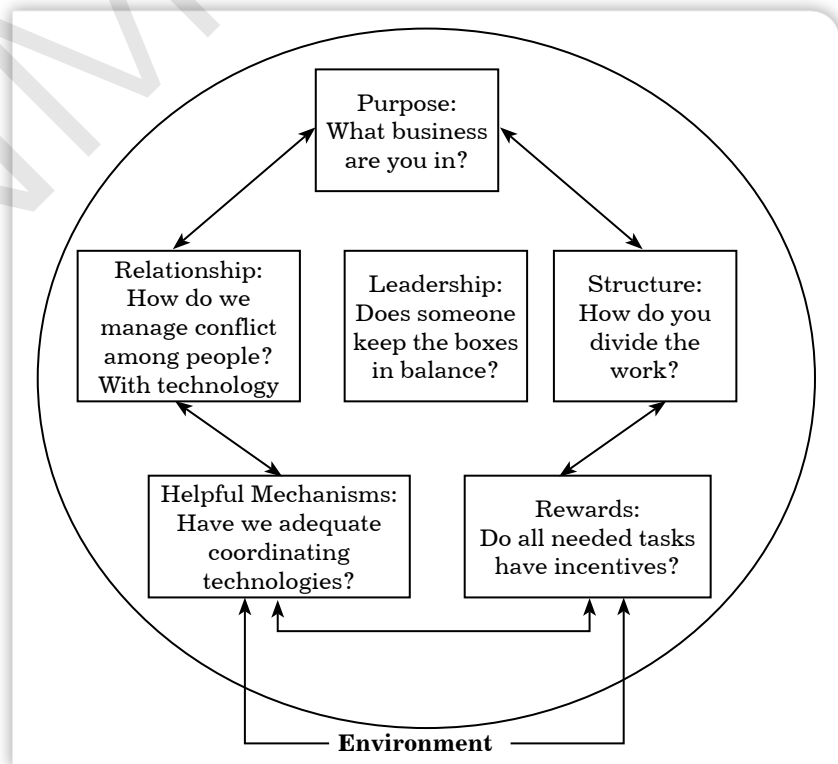


Figure 4.2: Six Box Model  
(Source: www.emeraldinsight.com)



Let us discuss these six areas in detail.

- ❑ **Purpose:** This box is concerned with the overall direction of an organisation. In addition, in this box, it is considered to what extent people are clear about the organisation's vision and mission and provide support to meet the organisation's purpose.
- ❑ **Structure:** The box represents that the organisation's structure should be well fitted with the organisation's purpose.
- ❑ **Relationships:** As per Weisbord, there are three most important relationships in an organisation. They are between individuals; between different departments; and between individuals and their jobs. He has suggested that the quality of these relationships is important for managing conflicts in the organisation. Effective communication and coordination are the two main tools to improve the quality of relationships in the organisation.
- ❑ **Rewards:** This box is concerned with the compensation packages and incentive system of the organisation. A fair reward mechanism acts as a motivating factor and prompts employees to work towards organisational goals and objectives. The structure of the organisation should be such that the performance of employees is rewarded.
- ❑ **Leadership:** Weisbord considers this box central as leaders are responsible for monitoring the performance of the other five boxes and maintaining a balance among these boxes. According to him, leaders define purposes, embody these purposes in programs, maintain the organisation's integrity, and manage conflicts.
- ❑ **Helpful mechanisms:** As per **Weisbord**, helpful mechanisms are *the cement that binds an organisation together to make it more than a collection of individuals with separate needs*. The mechanisms are the processes that help employees to accomplish their jobs and meet organisational objectives. A few examples of such mechanisms are planning, control, budgeting, information systems, etc.

Weisbord proposes money, people, ideas and machinery as inputs, which are used to fulfil the organisation's mission. The outputs, on the other hand, are products and services. However, there are two premises which are important to understand in Weisbord's model. These premises include:

- ❑ **Formal versus informal systems:** Formal systems involve policies and procedures that the organisation claims to do. Informal systems on the other hand are the behaviours that actually occur within the system. The gap between formal and informal systems within the organisation defines the effectiveness of the organisational structure. The lesser the gap between the two, the more effective the organisation would be.

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- ❑ **Fit between the organisation and the environment:** It is the second premise that focuses on the difference between the current performance of an organisation and the way the organisation should perform to meet external demands. Weisbord describes external demands as customers, government and unions.

Weisbord further presents diagnostic questions for each box of his model. For example, he proposes that OD consultants regulate whether organisational members support the organisation's mission and goals within the purposes box. This question deals with the premise regarding the nature of the formal and informal systems within the organisation. Let us see the sample of some questions that could be posed:

- ❑ **Purposes:** Do organisational members support the organisation's mission and goals?
- ❑ **Structure:** Is there a fit between the purpose and the internal structure of the organisation?
- ❑ **Relationships:** What type of relationship exists between individuals and different departments? What is the quality of relations? Is there any interdependence?
- ❑ **Rewards:** What is the formal rewarding system of the organisation? What do organisational members feel about the rewards and punishments they get by the organisation?
- ❑ **Leadership:** Do leaders define purposes and express them in their programs?
- ❑ **Helpful mechanisms:** Do these mechanisms help or hamper the achievement of organisational objectives?

Thus, you can see that the Weisbord's model focuses on diagnostic questions that relate with the internal issues within an organisation. These questions analyse the fit between "what is there" and "what should be there in the organisation."

Although the model provides insight to develop the structure of organisations, it suffers from certain limitations. Some of its limitations are:

- ❑ **Oversimplification:** This model is very simplified which is not true in a complex organisational environment.
- ❑ **Insufficiency:** This model is not complete. For instance, the model does not deal with power issues nor it includes any competitive aspects of the organisation.
- ❑ **Inadequacy:** The relationships between the boxes are not explained properly.

### 4.2.2 MATRIX OR MIXED MODEL

The matrix organisational structure is one of the most complex organisational structures. This structure is developed to complete a particular project or a special task. Thus, in this structure, employees from different departments of the organisation temporarily work together. For example, the new product development project of an organisation requires experts from different departments like finance, product engineering, production, marketing, sales, research and development, etc.

In the matrix structure, there is no particular direction of authority and responsibility and a single individual may receive commands from two different sources at the same time namely functional manager and project manager. Functional managers are responsible for heading departments such as engineering and marketing, while project managers supervise employees working on specific projects in different departments. The authority of functional manager flows downwards, whereas the authority of project managers flows horizontally. Thus, in the matrix structure, authority flows downwards and across.

In a nutshell, it can be said that the matrix structure links employees, tasks, and technologies by combining two or more departments within the organisation with the aim of leveraging the benefits of all the departments. Citigroup is the example of the organisation that uses the mixed model approach. Figure 4.3 and Figure 4.4 show the example of the matrix organisational structure:

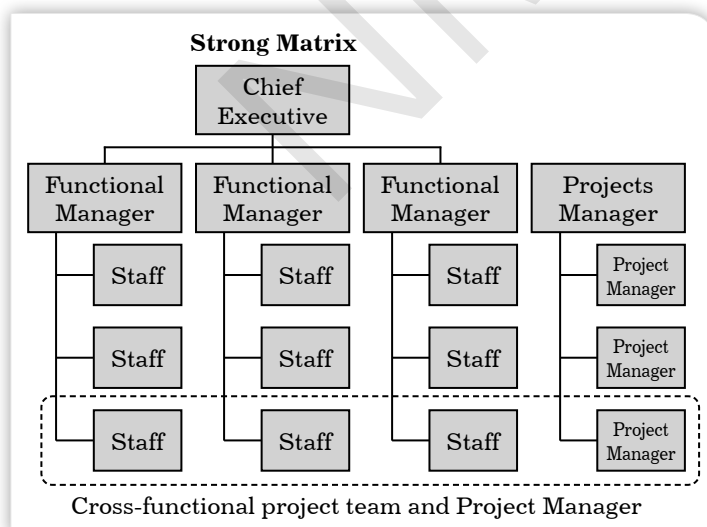


Figure 4.3: An Example of Matrix Model

(Source: [http://www.metanaction.com/cms/sites/default/files/u3/Strong\\_matrix.jpg](http://www.metanaction.com/cms/sites/default/files/u3/Strong_matrix.jpg))

## N O T E S

	Marketing	Operations	Finance	HRM
	Marketing Manager	Operations Manager	Finance Manager	HR Manager
Project A (Team Leader)	Marketing Team (A)	Operations Team (A)	Finance Team (A)	HR Team (A)
Project B (Team Leader)	Marketing Team (B)	Operations Team (B)	Finance Team (B)	HR Team (B)
Project C (Team Leader)	Marketing Team (C)	Operations Team (C)	Finance Team (C)	HR Team (C)
Project D (Team Leader)	Marketing Team (D)	Operations Team (D)	Finance Team (D)	HR Team (D)

Figure 4.4: An Example of Matrix Model

(Source: [www.tutor2u.net/business/reference/matrix-structures](http://www.tutor2u.net/business/reference/matrix-structures))

The advantages of the matrix organisational structure are as follows:

- ❑ **Sound decisions:** In the matrix organisational structure, decisions are taken by experts. Thus, the decisions made in this structure are always effective and valuable.
- ❑ **Development of skills:** The matrix organisational structure helps in widening the skills of employees. For instance, marketing people can learn about financing if they need to report to finance managers.
- ❑ **Effective strategic planning:** By delegating the tasks to project managers, the top managers can easily concentrate on effective strategic planning.
- ❑ **Optimum utilisation of resources:** The matrix organisational structure makes optimum use of human and physical resources as there is no duplication of work. Thus, there is no wastage of resources in the matrix organisation.
- ❑ **Team effort:** In a matrix organisational structure, the employees work as a team to accomplish a particular task or project. This facilitates effective coordination among employees and motivates to achieve the pre-defined goals.

The disadvantages of the matrix organisational structure are as follows:

- ❑ **Increase in workload:** In a matrix organisational structure, managers and employees have to not only do their regular work but also manage other additional tasks like attending various meetings. This leads to high workload on managers and employees.
- ❑ **High operational cost:** In a matrix organisational structure, costs are incurred on paperwork, reports generation, meetings, etc. This leads to an increase in operational costs of an organisation.

- ❑ **Absence of unity of command:** There is no unity of command as an employee faces multiple commands from different managers. This may lead to chaos and ambiguity in roles and responsibilities.
- ❑ **Complexity:** In the matrix structure, the size of hierarchy is too large. Thus, there are higher chances of chaos and confusion in this structure.

### 4.2.3 OTHER ORGANISATIONAL MODELS

Apart from the matrix organisational structure, there are some other types of organisational structures. However, the type of structure selected by an organisation depends on its requirements, business size, staff's strength, budget, etc. The following are some other types of organisational structures:

- ❑ **Line organisational structure:** In this structure, there is a single line of command. This type of model is informal in nature and the decision-making process is easy and simple. It is generally used in small-scale organisations. The line organisational model is also known as scalar, military, or vertical organisational model. Figure 4.5 shows an example of line organisational structure:

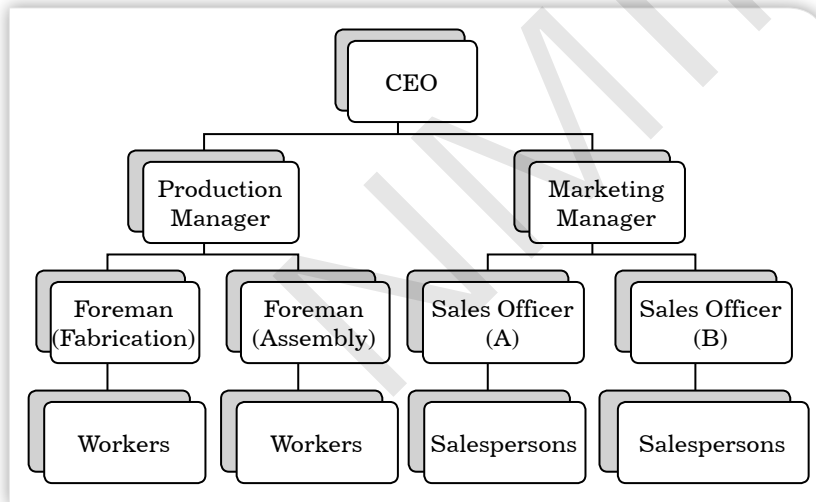


Figure 4.5: Example of Line Organisational Structure

- ❑ **Line and staff organisational structure:** Under this structure, the flow of information is from top to bottom in a line and staff members support line managers. For example, a production manager (line employee) is responsible for producing goods, while the quality manager (staff member) checks and ensures the quality of goods produced. This model is used in medium and large-scale organisations. Figure 4.6 shows an example of line and staff organisational structure:

## NOTES

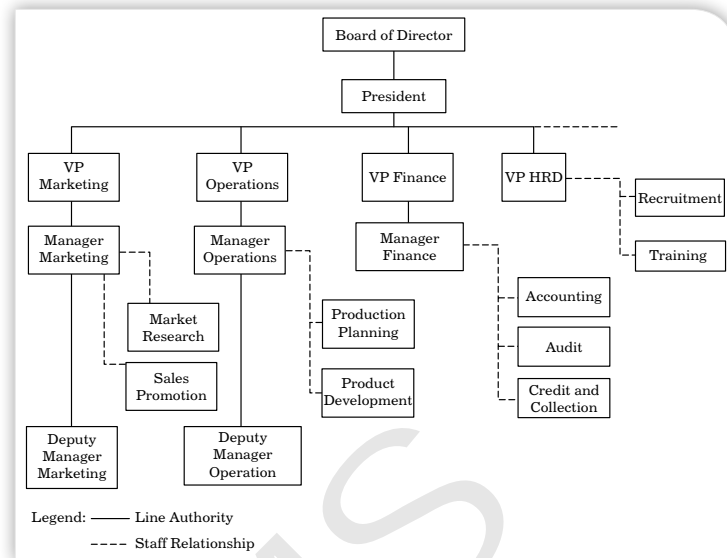


Figure 4.6: Example of Line and Staff Organisational Structure

- ❑ **Functional organisational structure:** It is an organisational structure in which individuals with similar functional areas or skills are grouped in separate units. These separate units are directly controlled and coordinated by the top management of the organisation. The functional organisational model is suitable for large-scale organisations having a limited number of products. Figure 4.7 shows an example of functional organisational structure:

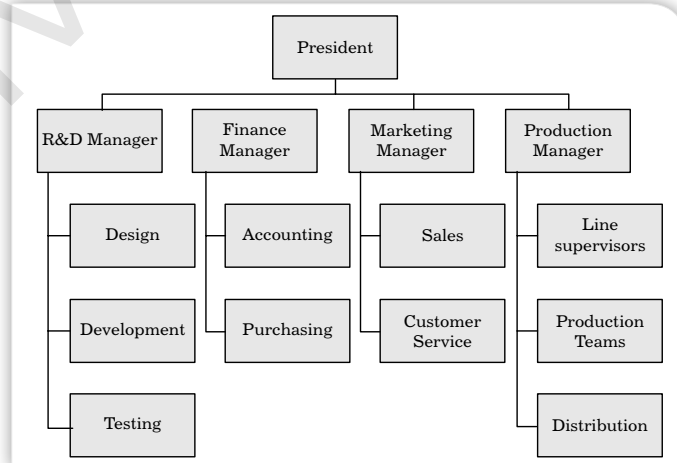


Figure 4.7: Example of Functional Organisational Structure

- ❑ **Divisional organisational structure:** An organisational structure in which an organisation is divided into different independent units is called divisional organisational model. The division is made on the basis of product, market, and geographic region of the organisation. For example, if the organisation has three different product lines, it would have separate divisions for these product lines. This is one of the most widely used structures by organisations. Figure 4.8 shows an example of divisional organisational structure:

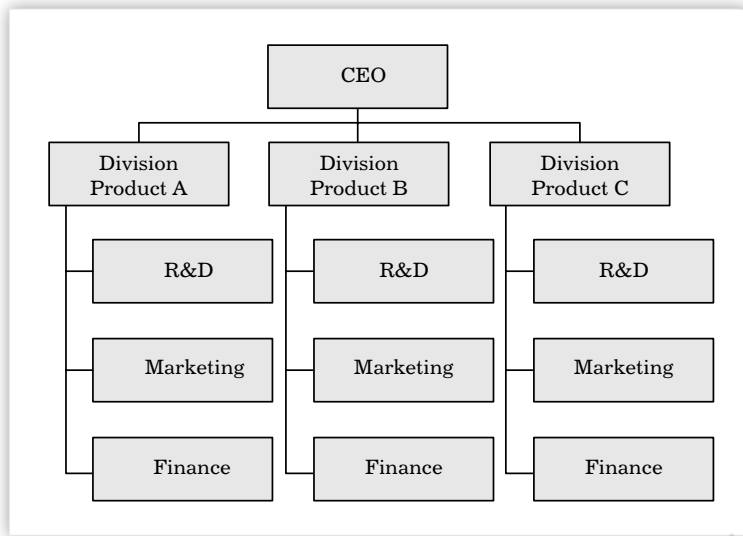


Figure 4.8: Example of Divisional Organisational Structure

**SELF ASSESSMENT QUESTIONS**

- The logical arrangement of tasks, duties, and roles and responsibilities with the aim to achieve the predetermined objectives of the organisation is called:
  - Organisational matrix
  - Organisational structure
  - Functional structure
  - Divisional structure
- \_\_\_\_\_ involves dividing a large organisation into smaller units (called departments) as per specialised functions.
- “The networking of individuals in an organisational structure must lead to synergy.” What is synergy?
- Who developed the six-box model?
- An organisational structure in which an organisation is divided into different independent units is called \_\_\_\_\_.

**ACTIVITY**

Analyse the organisational structure of any organisation in your vicinity. Make a note on its advantages and disadvantages.

### 4.3 ETZIONI ORGANISATIONAL THEORY

Etzioni, an Israeli-American sociologist, developed an advanced approach to the structure of organisations that he called **compliance theory**. As per this theory, organisations can be classified on the basis

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of the degree of power exercised by organisational leaders in order to direct employees. Etzioni, identified three types of power namely coercive power, utilitarian power, and normative power and related these three power with three types of involvement which are alienative, calculative, and moral. Involvement refers to the attitudes, ranks, and roles of an organisation's employees. Table 4.1 shows three types of organisational powers that are related to three types of involvement:

TABLE 4.1: ETZIONI ORGANISATIONAL THEORY				
Types of Involvement	Types of power			
		Coercive power	Utilitarian power	Normative power
	Alienative	Combination A		
	Calculative	Combination B		
	Moral	Combination C		

Let us first discuss these three types of powers and involvement separately.

- ❑ **Coercive power:** It involves the application of force and fear for controlling the actions of lower level participants. Such type of power is exercised at organisations such as prisons, mental asylums, military training facilities, etc.
- ❑ **Utilitarian power:** This power uses monetary or extrinsic rewards to control the actions of lower level participants. The examples of rewards are salary, merit pay, good working conditions, fringe benefits, job security, etc. Various government agencies and trade unions use this type of power.
- ❑ **Normative power:** This type of power uses intrinsic rewards to influence the behaviour of individuals. Intrinsic rewards include interesting work, identification of goals, and contribution to the society. This type of power is used in organisations such as churches, political organisations, professional associations, and universities.

All the three types of powers can help in achieving the cooperation of participants. However, the effectiveness of such powers depends on the involvement of participants. As per **Lunenburg and Ornstein (2012)**, *the relative effectiveness of each power approach depends on the involvement of the organisation's participant*. Let us discuss three types of involvement as follows:

- ❑ **Alienative involvement:** This involvement assigns a negative orientation. The main goal is to adherence to the organisation's val-



ues. For example, prisoners in jails, patients in mental asylums, and personnel in military training facilities incline to be alienated from their respective organisations.

- ❑ **Calculative involvement:** This involvement designates positive or negative orientation of low intensity. Employees usually maximise personal gain when an organisation employs calculative power.
- ❑ **Moral involvement:** It is a positive orientation of high intensity. The employees are committed to the society when an organisation employs moral power; for example, members of a political party.

### RELATIONSHIP BETWEEN POWER AND INVOLVEMENT

As per Etzioni, when an organisation exercises coercive power, participants often react in a hostile manner, which is alienative involvement. On the other hand, utilitarian power results in calculative involvement wherein participants are more interested in maximising personal gain. Finally, normative power leads to moral involvement as participants are committed to the socially beneficial features of their organisations.



#### SELF ASSESSMENT QUESTIONS

6. \_\_\_\_\_ is a positive orientation of high intensity.
7. Which type of power uses intrinsic rewards to influence the behaviour of individuals?
8. Utilitarian power involves the application of force and fear for controlling the actions of lower level participants. (True/False)
9. \_\_\_\_\_ refers to the attitudes, ranks, and roles of an organisation's employees.



#### ACTIVITY

Perform research on coercive power exercised in prisons. Do you think that it is an effective way of controlling inmates?

## 4.4

### FACTORS INFLUENCING ORGANISATIONAL STRUCTURE

Designing an organisational structure requires proper attention and supervision. This is because an inappropriate organisational structure may negatively affect the organisation's performance. There are many factors that influence the structure of an organisation. Some of the important factors are shown in Figure 4.9:

## N O T E S

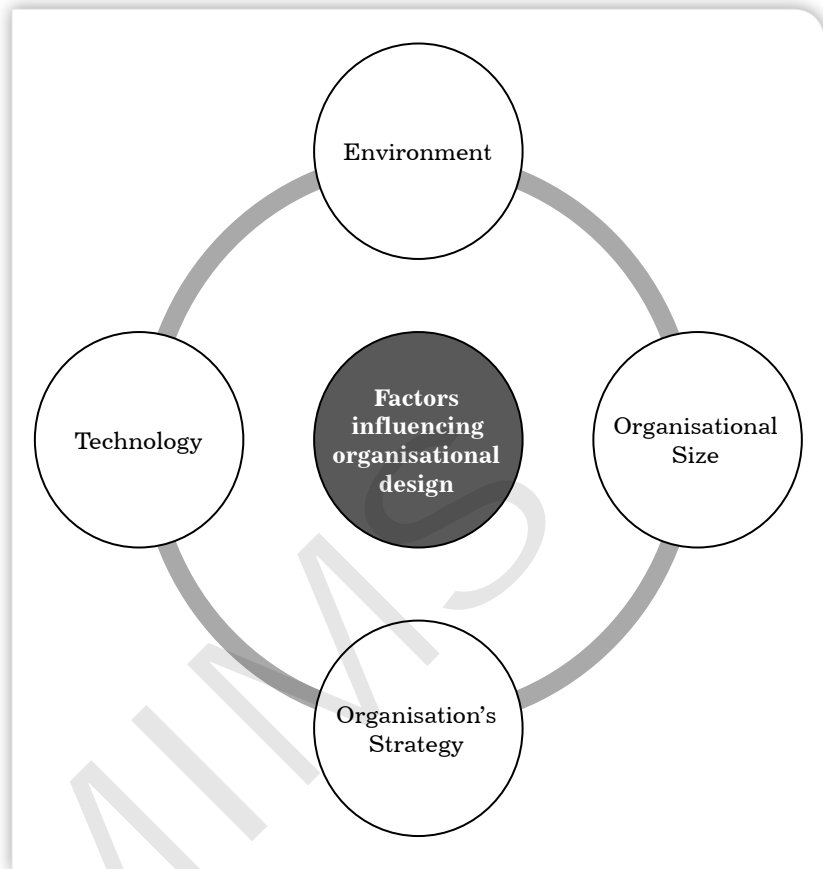


Figure 4.9: Factors Influencing Organisational Structure

Let us discuss these factors in detail.

- **Environment:** It is an aggregate of all the factors, conditions, events, and influences that surround and affect the activities of an organisation. The organisation should analyse the environment in which it operates while designing its structure. This helps an organisation to collect information on the latest trends and changes in the market and develop its structure accordingly.

The environment of an organisation is divided into internal and external environment. The internal environment includes all the factors that are within the control of an organisation. It may be called strengths and weaknesses of an organisation. The external environment includes all the factors that are beyond the control of an organisation. The external environment may either generate opportunities or pose threats for an organisation. The four environmental influences are discussed as follows:

- ♦ **Strengths:** These are basically the internal attributes of an organisation that helps it to achieve its goals and objectives. Sound finances, low cost, flexibility, effective marketing, efficient administration, good relationships with suppliers, etc. are the strengths of an organisation.

## N O T E S

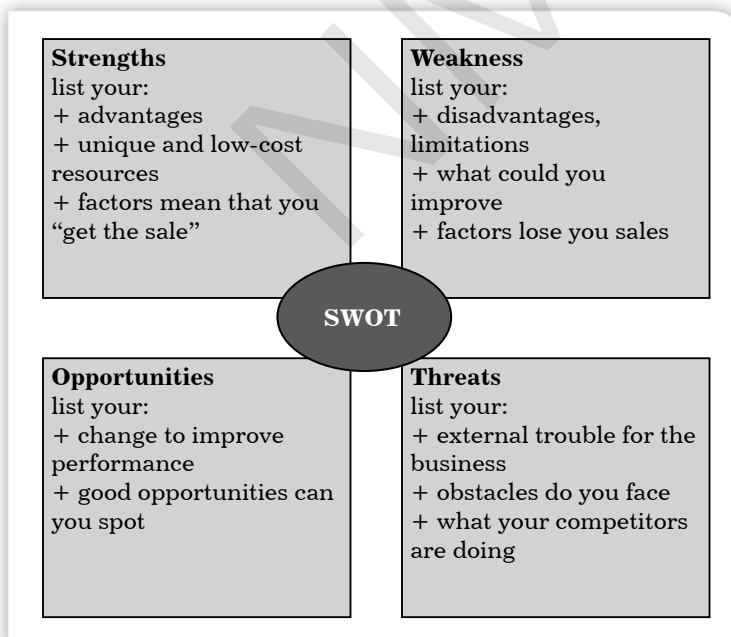
- ◆ **Weaknesses:** It is an inherent inadequacy that brings strategic disadvantages for an organisation. Insufficient funds, late response to customer requirements, limited product range, inefficient production, etc. are the weaknesses of an organisation.
- ◆ **Opportunities:** These are external conditions that are favourable for an organisation and may strengthen the position of the organisation. Declining performance of competitors, access to potential customers, leverage in political and legal standards, development of new distribution channels are the examples of opportunities.
- ◆ **Threats:** These are the conditions that can cause trouble for organisations. For instance, rise in raw material prices, high rate of attrition, improved competitive products, etc.



## EXHIBIT

**SWOT Analysis**

The Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis matches organisation's strengths and weaknesses with the opportunities and threats present in the environment. The SWOT analysis is performed with the help of a four cell matrix, each cell representing strengths, weaknesses, opportunities, and threats. The following table shows the SWOT matrix of an organisation:



(Source: [www.canvanizer.com](http://www.canvanizer.com))

- **Organisational size:** It is defined by a number of employees and the businesses of an organisation. The organisational structure is largely influenced by the size of the organisation. For example, in

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a small organisation comprising about 50 people, the line organisational structure is preferred. On the other hand, large-scale organisations generally prefer the matrix organisational structure.

- ❑ **Organisation's strategy:** The strategy of the organisation should be well fitted with the organisation's structure. For example, if the strategy of an organisation is to maximise overall productivity, all the departments are required to meet the desired level of productivity. In such a case, the functional organisational structure is followed which divides an organisation into different departments such as marketing, finance, and operations.
- ❑ **Technology:** The advent of advanced technologies has automated the different processes of organisations. This has created a less need for human resources. For example, ATM machines provide banking facilities such as money deposit and withdrawal to people without visiting banks. This has changed the organisational structures of banks.



## SELF ASSESSMENT QUESTIONS

10. Give examples of weaknesses of the organisation.
11. \_\_\_\_\_ is defined by a number of employees and the businesses of an organisation.
12. The advent of advanced technologies has automated the different processes of organisations. (True/False)



## ACTIVITY

Perform SWOT analysis of any organisation in your area. Make a report on the strengths, weaknesses, opportunities, and threats of the organisation.

## 4.5 SUMMARY

- ❑ An organisational structure defines reporting relationships, employees' tasks and responsibilities, communication channels in an organisation.
- ❑ The six box organisational model and matrix model are the two important models which are used commonly by organisations to develop their structure.
- ❑ Other types of organisational models include line organisational structure, line and staff organisational structure, functional organisational structure, and divisional organisational structure.
- ❑ As per the Etzioni organisational theory, organisations use three different powers for directing employees that are coercive power,

utilitarian power and normative power. These powers are related to three types of involvement, namely alienative, calculative, and moral.

- ❑ The structure of an organisation is influenced by various factors such as organisation's strategy, organisational size, technology, and environment.



#### KEY WORDS

- ❑ **Authority:** Control over organisational processes and subordinates within the span of a manager.
- ❑ **Coercion:** An act of making another party take involuntary actions.
- ❑ **Environment:** Surroundings, influences, or circumstances, under which an individual/organisation exists.
- ❑ **Power:** Legitimate and illegitimate control exerted by a person on others to achieve personal goals.
- ❑ **Responsibility:** The state of being answerable to a superior.
- ❑ **Supervision:** An act of directing somebody.

## 4.6 DESCRIPTIVE QUESTIONS

1. Define organisational structure. Explain its characteristics and principles.
2. Explain the matrix model along with its advantages and disadvantages.
3. Discuss the ETZIONI organisational theory.
4. Elaborate on the factors affecting organisational structure.

## 4.7 ANSWERS AND HINTS

### ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No.	Answers
Concept of Organisational Structure	1.	b. Organisational structure
	2.	Departmentation
	3.	Synergy implies that the efforts of all individuals should result in more than the sum of individual output.

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Topic	Q. No.	Answers
	4.	Marvin Weisbord
	5.	Divisional organisational model
Etzioni Organisational Theory	6.	Moral involvement
	7.	Normative power
	8.	True
	9.	Involvement
Factors Influencing Organisational Structure	10.	Insufficient funds, late response to customer requirements, limited product range, inefficient production, etc. are the weaknesses of an organisation.
	11.	Organisational size
	12.	True

**HINTS FOR DESCRIPTIVE QUESTIONS**

1. A framework in which tasks are allocated to individuals to achieve organisational goals and objectives is called organisational structure. Refer to Section 4.4 **Concept of Organisational Structure**.
2. The matrix organisational structure is one where there are multiple reporting lines. Refer to Section 4.4 **Concept of Organisational Structure**.
3. The ETZIONI organisational theory is an advanced approach to the structure of organisations. Refer to Section 4.5 **ETZIONI Organisational Theory**.
4. Organisation's strategy, organizational size, technology, and environment are the factors that influence an organisational structure. Refer to Section 4.6 **Factors Influencing Organisational Structure**.

**4.8 SUGGESTED READINGS & REFERENCES****SUGGESTED READINGS**

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NMIMS



# 5

## C H A P T E R

### BUSINESS COMMUNICATION

#### CONTENTS

- 5.1 Introduction
- 5.2 Concept of Communication
  - 5.2.1 Meaning of Business Communication
  - 5.2.2 Need and Significance of Business Communication
    - Self Assessment Questions
    - Activity
- 5.3 Types of Business Communication
  - 5.3.1 Internal and External Communication
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- 5.8 Answers and Hints
- 5.9 Suggested Readings & References

## N O T E S

## INTRODUCTORY CASELET

## INEFFECTIVE COMMUNICATION AT WORKPLACE



Anuj Sharma works as a senior sales executive at Ubica Insurance Group, Mumbai Branch. He is a dedicated and hardworking employee. A few days back, his manager Mr. Batra asked him to meet two of the organisation's most important clients Mr. Govind and Mr. Joy. Meeting these two clients was very important for Anuj on that particular day as both the clients were leaving the country the next day for 2-3 weeks.

As Mr. Govind's office was near Ubica Insurance Group, Anuj decided to meet him first. When Anuj reached Mr. Govind's office, he found that Mr. Govind had gone for the inspection of his factory. Mr. Govind returned after two hours and held a meeting with Anuj. Although Anuj tried to close the meeting as soon as possible, the meeting took much longer than expected. As a result, Anuj got late for the meeting with the second client.

Anuj was almost two hours late for the appointment with Mr. Joy. After getting into the office, Anuj was told by the receptionist that Mr. Joy had left the office after waiting for him for so long as he had to catch a flight. Anuj tried to call Mr. Joy but his phone was switched off.

Anuj had no other option but to return to his office and report to Mr. Batra. In meanwhile, Mr. Joy, before leaving the office, informed Mr. Batra that Anuj did not come to meet him. At this, Mr. Batra was very furious and he simply refused to listen to any explanations given by Anuj. Ultimately, Anuj decided to leave Ubica Insurance Group. A lack of communication led to the loss of a dedicated employee of the organisation.



## LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- Explain the concept of business communication
- Identify various types of business communication
- Discuss the tools of business communication
- State the role of business communication in an organisation

## 5.1 INTRODUCTION

Communication is a process of sharing information between two or more individuals to reach a common understanding. It is a vital part of any human interaction. People need to express their thoughts, ideas, feelings, and views to connect with others and share information. They interact with each other in various ways be it by using words, actions, or expressions. Effective communication is of paramount importance for people be it their personal or professional life.

The success of any business depends a great deal on building sound professional relationships. Communication is a crucial factor in developing good business relationships. It is of paramount importance for people to communicate the right message at the right time and at the right place while dealing with customers, investors, government, media, and various other stakeholders. Any miscommunication or ambiguity in the message may negatively impact the image of the organisation.

Apart from this, at workplace, there happens to be interpersonal communication between colleagues, superiors, and subordinates. They need to communicate with each other to explain common goals and objectives, operational structure, job expectations, work ethics, rules and policies, etc. Lack of communication among people at workplace may lead to chaos and conflicts. In this chapter, you will study the concept and importance of business communication in detail.

## 5.2 CONCEPT OF COMMUNICATION

Communication can be described as a process of expressing and transmitting ideas, thoughts, opinions, or beliefs among individuals either verbally or nonverbally. In other words, communication is a process that involves transferring information from one party to another. The word **communication** has been derived from a Latin word *communis*, which means **common**. Thus, there can be no communication unless there is a common understanding resulting from the exchange of information among individuals. Different management experts have defined communication differently. The following are some popular definitions of communication:

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According to **Oxford English Dictionary**, *Communication means the imparting, conveying, or exchange of ideas, knowledge, etc., whether by speech, writing, or signs.*

According to **Keith Davis**, *Communication is the process of passing information and understanding from one person to another.*

In the words of **Keyton**, *Communication can be defined as the process of transmitting information and common understanding from one person to another.*

Communication follows a cyclic pattern for the delivery of a message, fact, thought, or idea. There are six elements that make communication successful and effective. Figure 5.1 shows these six elements:

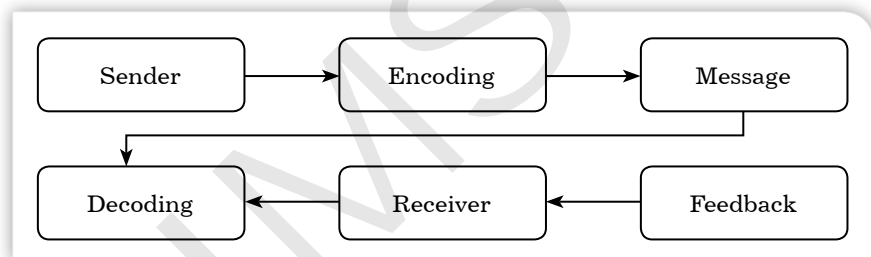


Figure 5.1: Elements of Communication

Let us discuss each of these elements in detail.

- ❑ **Sender:** A person who sends the intended message to another individual(s). A sender is the source of information in the process of communication. For effective communication, the sender should keep in mind the background of the audience before sending any message.
- ❑ **Encoding:** It is a process that puts the thoughts of the sender in a framework of symbols or words for the sake of transmitting the message to the audience.
- ❑ **Message:** It is a collection of symbols or words that convey the intention of the sender. The message is sent by the sender to the audience. Communication is said to be effective if the audience perceives the same what the sender intends to convey through the message. Thus, it is important for the sender to compose a message in a manner so that it can easily be understood by the audience. The message should be free from ambiguities so that it can be clearly interpreted. Moreover, the sender should select an effective medium of communication depending on the priority of the message.
- ❑ **Decoding:** It is a process of deciphering the encoded message received from the sender and understanding its intended meaning.
- ❑ **Receiver:** A person to whom the decoded message reaches. The receiver is the audience or destination.

- ❑ **Feedback:** It is the response of the receiver to the message sent by the sender. Feedback is basically the acknowledgement of receiving the message or a reply to the message.

### 5.2.1 MEANING OF BUSINESS COMMUNICATION

As communication is important for the existence of people in a society, it is also of paramount importance for the functioning of organisations. A business organisation is a group of people who work together to pursue common goals. For this, they need to perform a number of activities. These activities can be performed efficiently if there is effective and systematic communication among people. In organisations, communication is essential for sending and receiving various official messages. These messages can be related to business decisions, official meetings, organisational strategies, and so on. The following are some definitions of business communication:

According to **Ricks and Gow**, *Business communication is a system that affects change within the total organization.*

According to **W. H. Meaning**, *The exchange of ideas, news and views in connection with the business among the related parties is called business communication.*

According to **Prof. J. Haste**, *Communication occurred between two or more businessmen for organizing and administering business efficiently is called business communication.*

According to **Brennar**, *Business communication is the expression channelling, receiving and interchanging of ideas in commerce and industry.*

Business communication can take place internally (within an organisation) or externally (outside the organisation). These two types of business communication are explained as follows:

- ❑ **Internal business communication:** It takes place when people working in an organisation interact with each other to realise common goals. Internal communication can be formal or informal and take place between different groups of employees, managers and subordinates, between departments, etc. This type of communication takes place through various modes, such as e-mails, memos, reports, circulars, faxes, video conferencing, and meetings. A detailed explanation of internal business communication is given later in the chapter.
- ❑ **External business communication:** It takes place when people working in an organisation interact with external parties such as customers, suppliers, dealers, distributors, government, and general public. You will study about external business communication in detail in the subsequent sections of the chapter.

## N O T E S

Business communication is a cyclical and systematic process. Figure 5.2 shows the process of business communication in an organisation:

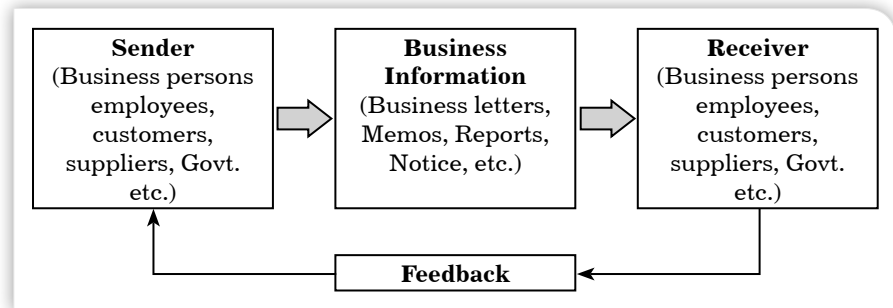


Figure 5.2: Process of Business Communication

(Source: <http://christopherhouse.blogspot.in/2012/08/meaning-of-business-communication.html>)

To summarise, business communication is a process of exchanging business issues, information, and functions between various parties, such as producers, buyers, distributors, suppliers, competitors, agencies, and business partners through business letters, memos, reports, and notices. The main aim of such communication is to organise and administer business functions effectively.

### 5.2.2 NEED AND SIGNIFICANCE OF BUSINESS COMMUNICATION

From the discussion so far, it can be said that communication is the most important aspect of any business organisation. Thus, it is essential for an organisation to ensure that the right message is received by the right individual at the right time. Figure 5.3 lists the need and significance of effective communication:

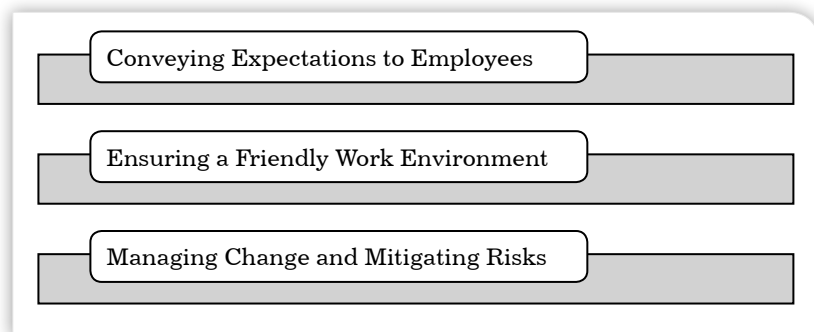


Figure 5.3: Importance of Business Communication

Let us discuss the significance of business communication.

- ❑ **Conveying expectations to employees:** It is the responsibility of an organisation's management to effectively communicate employees what they are expected to do. These expectations can be related to important deadlines, goals, strategies, appropriate tools and

## N O T E S

techniques, etc. If employees are not aware of their job roles and responsibilities, it may lead to chaos and confusion at the workplace. Thus, there should be effective communication between the management and employees.

- ❑ **Ensuring a friendly work environment:** If there is effective communication in an organisation, employees would feel comfortable to share their concerns with their superiors. Moreover, it enables the management to respond to the needs of employees quickly so that they can better work towards organisational goals and objectives.
- ❑ **Managing change and mitigating risks:** Efficient communication helps an organisation in managing risks and changes. For example, resistance to change is a natural tendency of employees in any organisation. In such a case, it is essential for managers to explain employees the importance of change in the organisation. Here, the role of effective communication comes into the picture. Apart from this, effective communication between managers and employees helps in managing risks like conflicts, wastage of time, and incidences of mistakes.



## SELF ASSESSMENT QUESTIONS

1. A process that involves transferring information from one party to another is called \_\_\_\_\_.
2. “Communication is the process of passing information and understanding from one person to another.”— Identify the speaker of these words.
3. Encoding is a process of deciphering the encoded message received from the sender and understanding its intended meaning. (True/False)
4. Which of the following is basically the acknowledgement of receiving the message or a reply to the message?
  - a. Feedback
  - b. Message
  - c. Deciphering
  - d. Decoding
5. \_\_\_\_\_ is a process of exchanging business issues, information, and functions between various parties and aim at organising and administering business functions effectively.



## ACTIVITY

Visit the public relations department of an advertising company. Hold a discussion with the head of the department regarding the process of communication followed there.

## N O T E S

### 5.3 TYPES OF BUSINESS COMMUNICATION

As discussed earlier, in an organisation, communication can happen at any level, such as between employees, between managers and subordinates, between departments, and between employees and third parties like customers, suppliers, etc. Communication can happen based on the target audience; purpose of communication; and communication channels used. Figure 5.4 shows different types of communication:

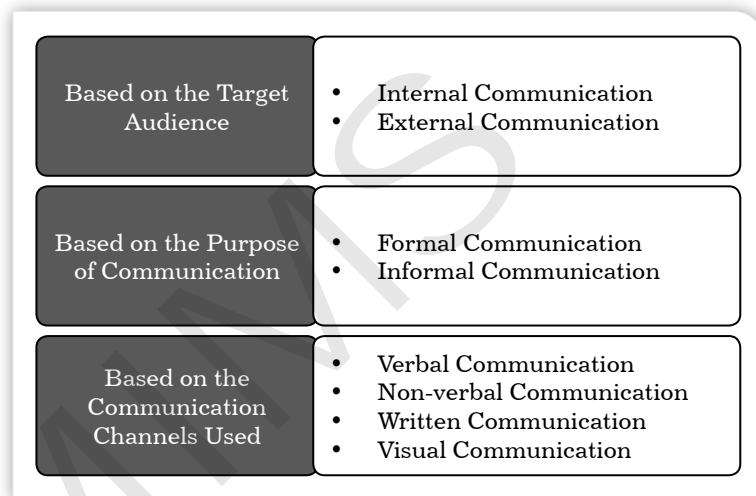


Figure 5.4: Different Types of Communication

Let us now discuss about different types of communication in the next sections.

#### 5.3.1 INTERNAL AND EXTERNAL COMMUNICATION

In an organisation, the target audience can be within the organisation (employees, managers, and departments) or outside the organisation (customers, suppliers, dealers, and distributors). Thus, communication can be internal or external in the organisation. Let us discuss these two types of communication as follows:

- ❑ **Internal communication:** This type of communication occurs inside the organisation. Internal communication is categorised into the following types:
  - ◆ **Upward communication:** This type of communication flows from the lower level to the upper level in an organisational hierarchy. For example, when a team member communicates to the team leader, it is upward communication.
  - ◆ **Downward communication:** This type of communication flows from the upper level to the lower level in a hierarchy. For example, when a team leader issues orders and instructions to the team members, it is downward communication. Similarly,



the announcement of new policies and rules through official statements, boards, memos, reports, speeches, and notices is a form of downward communication.

- ◆ **Horizontal communication:** This type of communication flows between employees working at the same level. For example, communication between a financial analyst and a market analyst regarding financial plans is horizontal communication.
- ◆ **Diagonal communication:** This type of communication flows between individuals in different teams and at different levels in an organisational hierarchy. For example, communication between the head of the IT department and the marketing head regarding newly developed marketing software is diagonal communication.
- **External communication:** This type of communication occurs outside the organisation. For example, communication between the production manager of an organisation and vendors regarding the quality of raw material is external communication. The main aim of external communication is to enhance organisational performance, goodwill, and brand image.

### 5.3.2 FORMAL AND INFORMAL COMMUNICATION

In an organisation, communication can happen for various purposes, such as sharing organisational policies to employees, interviewing customers, and maintaining relationships among employees. Based on the purpose, business communication can be divided into the following:

- **Formal communication:** This type of communication takes place in an official style in professional settings, business meetings, and conferences. In such communication, there are certain rules and principles that need to be followed while conveying a message. Formal communication requires a straightforward approach and a line of authority. The use of slang words is prohibited in formal communication.
- **Informal communication:** Informal communication is a free form of communication and does not follow any fixed pattern. This type of communication does not follow any rigid rule or guideline; thus, it also evades any restriction of time or place. In organisations, informal communication helps in understanding and addressing employee grievances as people express freely while talking informally.

### 5.3.3 VERBAL AND NON-VERBAL COMMUNICATION

In an organisation, communication can take place through various channels like e-mails, memos, speech, gestures, etc. Based on the channels used, communication is classified in the following categories:

## N O T E S

- ❑ **Verbal communication:** This type of communication involves the use of sounds, words, and language. An effective verbal communication is an integral part of any business. It is broadly classified into two types, which are:
  - ◆ **Interpersonal communication:** This type of communication takes place between two or more people, generally at a personal level. In interpersonal communication, a message is transmitted from one person to another.
  - ◆ **Public speaking:** This type of communication takes place between a single speaker and a group of audience for a common cause.
- ❑ **Non-verbal communication:** It is a type of communication that involves the use of signs and symbols. Non-verbal communication does not use words or sounds. It includes gestures, tone of the voice (inflections), smell, touch, and body motion. For example, the gesture of a finger on the lips can be used to tell the other person to be silent.



#### 5.3.4 WRITTEN AND VISUAL COMMUNICATION

Apart from verbal and non-verbal communication, communication can also be categorised in written and visual communication based on the channels used. Let us discuss these two types of communication as follows:

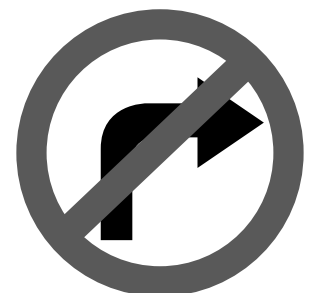
- ❑ **Written communication:** In this type of communication, a message is conveyed in a recorded form. It includes e-mails, articles, reports, and memos. Written communication can be used to convey information formally or informally. For example, a notice regarding change in the project schedule on the notice board is an example of written communication.

#### NOTICE

**LAB COATS  
MUST BE  
WORN**

Written communication lacks an immediate response from the receiver. Thus, there should be careful selection of words and phrases in the message.

- ❑ **Visual communication:** This type of communication involves the visual display of information through aids such as photos, signs, logos, codes, symbols, and designs. It is one of the most effective tools of communication as it attracts immediate attention of individuals.



**SELF ASSESSMENT QUESTIONS**

6. Based on the \_\_\_\_\_, communication can be internal or external in the organisation.
7. Which type of communication flows between employees working at the same level?
  - a. Upward communication
  - b. Downward communication
  - c. Horizontal communication
  - d. Diagonal communication
8. Communication between the production manager of an organisation and vendors regarding the quality of raw material is internal communication. (True/False)
9. In \_\_\_\_\_ communication, there are certain rules and principles that need to be followed while conveying a message.

**ACTIVITY**

Visit a market research firm where employees remain most of the time out of office in collecting information and conducting surveys. Observe the type of communication being used there. Based on your observation, prepare a report on the advantages and disadvantages of the type of communication used there.

## 5.4 TOOLS OF BUSINESS COMMUNICATION

In an organisation, effective communication may result in increased productivity, reduced employee turnover, and improved relationships among employees. Communication plays a vital role in conveying ideas or information be it day-to-day interpersonal conversations or mass interaction. However, in an organisation, the effectiveness of business communication largely depends on the tools used for communication. These tools are also called communication tools, mediums, or methods. Figure 5.5 shows some of the basic tools of business communication:

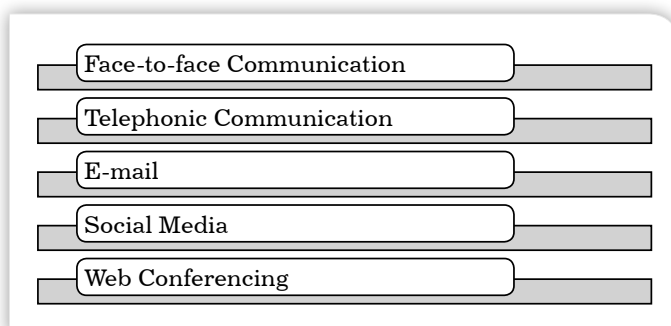


Figure 5.5: Tools of Business Communication

## N O T E S

Let us discuss these tools in detail.

- ❑ **Face-to-face communication:** It is one of the most common techniques wherein one-to-one communication happens between two individuals. In an organisation, face-to-face communication is used for establishing a personal connection with various stakeholders and generating business.

The effectiveness of face-to-face communication depends on various elements, such as tone, pitch, and body language of individuals involved in communication. The major benefit of face-to-face interaction is that it offers direct access to the receiver. In this way, not only the message is delivered immediately but also the feedback is received without any delay. Face-to-face communication helps in resolving conflicts as there happens to be a minimum communication gap.

- ❑ **Telephonic communication:** It is another significant business communication tool that helps in delivering the message directly to the recipient over the phone. Telephonic conversation needs the sender to be precise and clear in their saying as the recipient does not get a chance to see the body language of the sender.
- ❑ **E-mail:** It is one of the most widely used written communication tools. In an organisation, employees use e-mails for various purposes, such as sharing business reports or transmitting any other business concern. E-mails can be used for sending information to multiple recipients at the same time.
- ❑ **Social media:** It involves online communication channels that allow individuals to share their ideas, views, and thoughts and participate in social networking. Social media provides a relatively inexpensive platform to carry out campaigns for business purposes. Various social media tools, such as Facebook, LinkedIn, and Twitter have emerged as valuable business communication tools. The main advantage of social media is that it allows organisations to hold real-time communication with customers and understand their needs and expectations.
- ❑ **Web conferencing:** It has become one of the most famous online communication tools especially in the today's fast-paced business world. Web conferencing allows individuals to hold real-time communication with multiple users at remote locations through the Internet. It enables users to conduct business meetings and seminars, make presentations, hold product demonstrations, provide online education, and offer customer support.

**SELF ASSESSMENT QUESTIONS**

10. Name a few social media tools that can be used as valuable business communication tools.
11. \_\_\_\_\_ allows individuals to hold real-time communication with multiple users at remote locations through the Internet.

**ACTIVITY**

You are launching a multi-vitamin capsule for women in the market. What types of business communication tools will you select for the successful promotion of your newly launched product considering the pros and cons of each tool?

**5.5****ROLE OF BUSINESS COMMUNICATION IN AN ORGANISATION**

The success or failure of any organisation depends a great deal on effective communication. In an organisational setting, it is impossible for individuals to survive without effective communication. This is because communication enhances the element of socialisation among individuals, which ultimately leads to team spirit and enhanced productivity. Communication plays an important role in all the functions of an organisation. The following points show the role of communication in an organisation:

- ☐ Delegating roles and responsibilities; thereby systematising work in a group.
- ☐ Resolving conflicts among individuals.
- ☐ Performing various managerial functions effectively, such as planning, organising, directing, and controlling.
- ☐ Motivating individuals to work towards organisational goals and objectives.
- ☐ Moulding employee attitudes and establishing a code of conduct.
- ☐ Maintaining discipline and control in an organisation.

**5.5.1 BENEFITS OF BUSINESS COMMUNICATION**

In an organisation, effective communication is essential to manage work in an efficient manner. It helps an organisation to create a supportive team environment and satisfy the needs of both internal and external customers.

## N O T E S

Figure 5.6 shows some of the benefits of business communication:

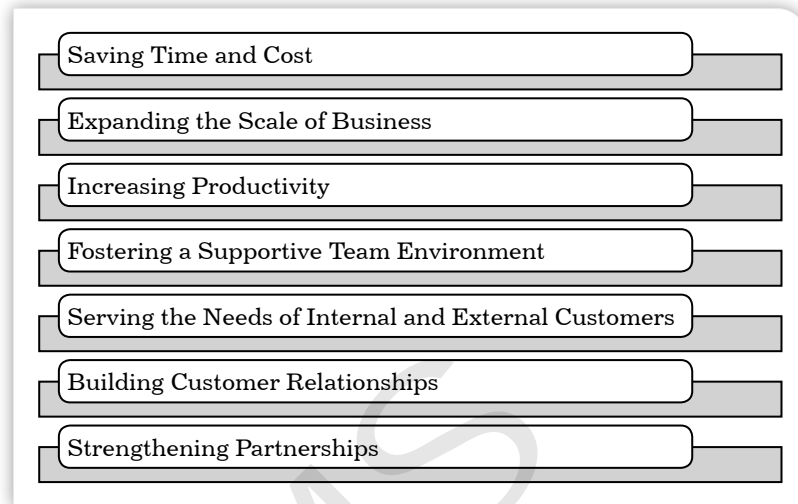


Figure 5.6: Benefits of Business Communication

Let us discuss the benefits of business communication in detail.

- ❑ **Saving time and cost:** Effective communication enables managers to assign duties in an effective manner. It saves the time incurred on redoing of misunderstood tasks. This ultimately helps in reducing overall time, cost and efforts.
- ❑ **Expanding the scale of business:** Globalisation has provided ample means to businesses to widen their customer base. Good communication helps organisations to reach potential customers and convince them to buy their products and services. Not only this, it also allows organisations to take feedback on its products and services from their existing customers. In this way, organisations can improve the quality of their products and services and expand their business by reaching to maximum customers.
- ❑ **Increasing productivity:** Good communication helps in avoiding confusion and resolving conflicts by making employees clear about their roles and responsibilities. This results in getting the desired outcome more quickly and efficiently. In addition, effective communication allows a free exchange of ideas and feedback pertaining to performance improvement.
- ❑ **Fostering a supportive team environment:** This is another major benefit of business communication. Effective business communication allows employees to work collectively and in a well-coordinated manner to achieve organisational goals and objectives. This ultimately fosters teamwork in an organisation.
- ❑ **Serving the needs of internal and external customers:** With regard to internal customers, business communication helps different departments and employees in getting information required for achieving organisational goals. On the other hand, business

communication helps external customers, such as suppliers, consumers, and investors, to collect information about an organisation through its websites, customer service centres, word of mouth, etc. before actually dealing with the organisation.

- ❑ **Building customer relationships:** Effective communication enables an organisation to inform customers about its presence and the availability of its products. Moreover, it helps the organisation to understand the needs and expectations of customers and provide them with customised products.
- ❑ **Strengthening partnerships:** Good communication helps an organisation in better dealing with their business partners by clearly understanding their needs and expectations. Moreover, it avoids confusion and misunderstandings between the organisation and its partners. This results in strengthened relationships and effective business deals between the organisation and its partners.

### 5.5.2 BARRIERS TO BUSINESS COMMUNICATION

Communication often faces a number of obstacles that distort the intended meaning of the message. These obstacles are called barriers to communication. The barriers to communication can be categorised into various types, which are shown in Figure 5.7:

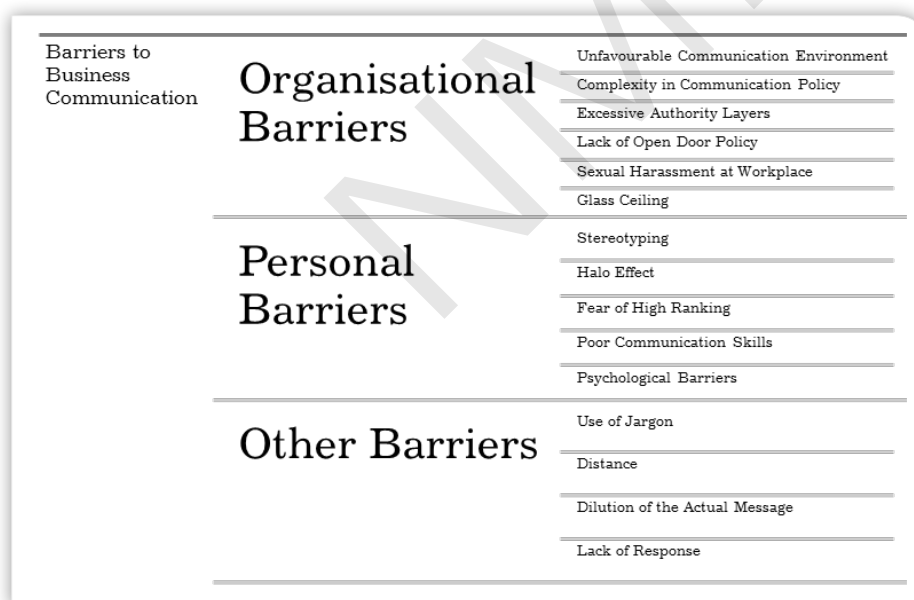


Figure 5.7: Barriers to Business Communication

Let us discuss barriers to business communication.

- ❑ **Organisational barriers:** The barriers that generate within an organisation are called organisational barriers. These barriers often put a negative impact on the flow of information. The organisational barriers can be categorised into the following types:

## N O T E S

- ◆ **Unfavourable communication environment:** If communication takes place in an environment that is full of trust and confidence, it results in a positive response from the receiver. On the other hand, if communication takes place under an unfavourable environment, even well formulated and meaningful information produces a negative impact. Thus, the communication environment of an organisation puts a significant impact on the effectiveness of business communication.
- ◆ **Complexity in communication policy:** Complex communication policies lead to poor communication system within an organisation. This is because many employees fail to understand the policies, which ultimately leads to communication failure. A well-designed communication policy encourages easy flow of communication among employees and departments.
- ◆ **Excessive authority layers:** Too many layers of authority in an organisation lead to poor flow of communication. This is because; information reaches to its final destination after passing through several hierarchical levels. This may lead to distortion of message and may also cause in communication delay.
- ◆ **Lack of open-door policy:** Open door policy can help in fostering communication between management and lower-level employees. The policy relates to the concept that the manager's door is always open for communication. With this policy, employees can approach the top management without any hitch and talk about anything. Lack of such policy may decrease the level of communication among employees.
- ◆ **Sexual harassment at workplace:** Sexual harassment can affect working conditions and may lead to hostile working environment. It could negatively impact the working ability and performance of an employee. Many individuals often find it difficult to handle such instances of sexual harassment and do not know when to speak-up. This badly affects the communication process within the system as the person may feel embarrassed or afraid of the repercussions. However, the major step to deal with such situation is to communicate the issues to individuals who can help resolving the same.
- ◆ **Glass ceiling:** Glass ceiling is a phrase, introduced in the 1980s, for the artificial barriers that create obstacles in the way of women and minorities in terms of leading to higher positions in the organisation. The United States Federal Glass Ceiling Commission defines the glass ceiling as the unseen, yet unbreachable barrier that keeps minorities and women from rising to the upper rungs of the corporate ladder, regardless of their qualifications or achievements. Glass ceiling is one of the major reasons for creating communication barrier within an organisation. It escalates the issues of gender differentiation



and gender stereotyping which prevents individuals to raise their voice against the biasness and communicate effectively.

- ❑ **Personal barriers:** Communication barriers that are created at an individual level (by sender/receiver) are called personal barriers. Some factors, such as attitude towards superiors, colleagues and other team members largely affect the flow of information. Negative attitude may lead to distortion of information, which may act as a barrier to effective communication. Let us discuss the major types of personal barriers:

- ◆ **Stereotyping:** It refers to categorising people into a single class based on some trait. In stereotyping, the receiver compares the sender with some other person on the basis of a common trait. This affects the objectivity of effective communication as the receiver may misjudge the intention of the sender
- ◆ **Halo effect:** It is a type of perceptive bias where a particular perception of one's personality trait influences the perception of the entire personality of a person. For example, if you consider a person kind, you may also tend to think that he/she is intelligent, hard-working, and generous.
- ◆ **Fear of high ranking:** Sometimes people are not comfortable in exchanging their views and ideas with their superiors. In such a case, it would be difficult for superiors to understand what is required and take appropriate actions. This leads to a communication gap between employees and their superiors.
- ◆ **Poor communication skills:** Sometimes people do not have effective communication skills. This may create chaos and misinterpretation of the message by the receivers. For example, improper usage of grammar may make the information unclear.
- ◆ **Psychological barriers:** Some emotional or mental factors such as prejudices impact the perception of the message by its receiver. It leads to various consequences, such as pre-evaluation of information before it is actually received, selective listening, selective retention, and selective transfer of information.

- ❑ **Other barriers:** Apart from the aforementioned barriers there are certain other types of barriers, which are:

- ◆ **Use of jargon:** Jargon refers to difficult or special words, which are specific to a group or profession. For example, it would be difficult for a marketing head to understand complicated networking terminology used by the IT head in an e-mail. In such a case, the whole communication would become futile.
- ◆ **Distance:** The physical distance between the sender and the receiver may delay communication and affect the expectations of both the sender and the receiver

## N O T E S

- ◆ **Dilution of the actual message:** Dilution of information takes place when one person gets the information and passes it on with an addition or an omission to the other person.
- ◆ **Lack of response:** Lack of response or inappropriate response from the receiver discourages the sender to communicate further. This creates a communication gap between the two.

### 5.5.3 MEASURES TO OVERCOME BARRIERS

Barriers to business communication hamper the smooth functioning of organisational activities. Therefore, these barriers should be overcome at the earliest. The following are some measures that can be taken to remove communication barriers:

- ❑ Setting a clear and meaningful purpose of communication.
- ❑ Selecting an appropriate channel of communication.
- ❑ Building trust by giving response and value to the sender.
- ❑ Training employees on effective communication skills.
- ❑ Using simple and understandable vocabulary while communicating.
- ❑ Ignoring jargon and irrelevant information to make communication simple and precise.
- ❑ Counselling employees for eliminating their fear for superiors so that they can communicate effectively.
- ❑ Listening effectively so that there is no difference between what is said by the sender and what is interpreted by the receiver.
- ❑ Giving preference to face-to-face communication with team members to boost their confidence and reduce communication gaps.
- ❑ Giving preference to a noise-free and favourable communication environment.



#### SELF ASSESSMENT QUESTIONS

12. Communication helps in maintaining discipline and control in an organisation. (True/False)
13. \_\_\_\_\_ refers to categorising people into a single class based on some trait.
14. \_\_\_\_\_ is a type of perceptive bias where a particular perception of one's personality trait influences the perception of the entire personality of a person.

**ACTIVITY**

Meet a few management professionals from the IT industry and ask which type of communication barrier they usually face in their organisations. Also, ask the measures they take for overcoming these barriers.

**5.6 SUMMARY**

- ❑ In an organisation, communication is a process of conveying orders, instructions, and information to achieve the desired level of performance of employees.
- ❑ The process of communication involves transferring information from one party to another. It includes encoding, channelling, and imparting information by a sender to a receiver with the help of a medium.
- ❑ The receiver receives, decodes, and understands the message and sends his/ her feedback to the sender.
- ❑ Effective communication is needed for conveying expectations to employees, ensuring a friendly work environment, managing change, and mitigating risks.
- ❑ Communication can happen based on the target audience; purpose of communication; and communication channels used.
- ❑ Business communication can be internal or external; formal or informal; verbal or non-verbal; and written or visual.
- ❑ The basic tools of business communication include face-to-face communication, telephonic communication, e-mail, social media, and web conferencing.
- ❑ Business communication has several advantages, such as saving time and cost, expanding the scale of business, increasing productivity, fostering a supportive team environment, serving the needs of internal and external customers, building customer relationships, and strengthening partnerships.
- ❑ The barriers to communication can be classified into psychological barriers, personal barriers, organisational barriers, poor communication skills, fear of high-ranking, stereotyping, halo effect, lack of response, dilution of actual message, use of jargon, unfavourable communication environment, and distance.

## N O T E S



## KEY WORDS

- ❑ **Selective listening:** It is a practice of listening only what is desired.
- ❑ **Selective retention:** A psychological process where a person retains only that part of message that is close to his/her interests, values, and beliefs and leaves the undesirable one.
- ❑ **Slang words:** Non-standard words and phrases used in informal communication.
- ❑ **Social networking:** Online grouping of persons into specific groups.
- ❑ **Word of mouth:** A form of verbal communication that helps to spread information about a product or service.

## 5.7 DESCRIPTIVE QUESTIONS

1. Discuss the concept and significance of communication.
2. Explain various types of business communication.
3. Write short notes on the tools that can be used for effective business communication.
4. Explain the role of business communication in an organisation.
5. Discuss at least five advantages of business communication.
6. Discuss various barriers that distort the information or understanding of the information.

## 5.8 ANSWERS AND HINTS

### ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No.	Answers
Concept of Communication	1.	Communication
	2.	Keith Davis
	3.	False
	4.	a. Feedback
Types of Business Communication	5.	Business communication
	6.	Target audience
	7.	c. Horizontal communication

## N O T E S

Topic	Q. No.	Answers
	8.	False
	9.	Formal
Tools of Business Communication	10.	Various social media tools, such as Facebook, LinkedIn, and Twitter have emerged as valuable business communication tools.
	11.	Web conferencing
Role of Business Communication in an Organisation	12.	True
	13.	Stereotyping
	14.	Halo effect

**HINTS FOR DESCRIPTIVE QUESTIONS**

1. Communication refers to a process of expressing and transmitting ideas, thoughts, opinions, or beliefs among individuals either verbally or nonverbally. Effective communication is needed for managing a smooth functioning of tasks, monitoring the tasks effectively, managing risk and change, and creating desired effects. Refer to Section 5.4 **Concept of Business Communication**.
2. Business communication can be categorised in internal and external communication; formal and informal communication; and verbal and non-verbal communication. Refer to Section 5.5 **Types of Business Communication**.
3. The basic tools of business communication include face-to-face communication, telephonic communication, e-mail, social media, and web conferencing. Refer to Section 5.6 **Tools of Business Communication**.
4. Business communication enhances the element of socialisation among individuals, which ultimately leads to team spirit and enhanced productivity. Refer to Section 5.7 **Role of Business Communication in an Organisation**.
5. Business communication helps in saving time and cost, expanding the scale of business, increasing productivity, fostering a supportive team environment, and strengthening partnerships. Refer to Section 5.7 **Role of Business Communication in an Organisation**.
6. The barriers to communication can be classified into psychological barriers, personal barriers, organisational barriers, poor communication skills, fear of high ranking, stereotyping, halo effect, lack of response, dilution of actual message, use of

## N O T E S

jargon, unfavourable communication environment, and distance. Refer to Section 5.7 **Role of Business Communication in an Organisation**.

## 5.9 SUGGESTED READINGS & REFERENCES

### SUGGESTED READINGS

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# 6

## C H A P T E R

### MANAGERIAL DECISION MAKING

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## N O T E S

## INTRODUCTORY CASELET

## INEFFECTIVE DECISION MAKING AT COMPAQ

In 1998, Compaq was one of the leading personal computer sellers in the world. The organisation was also recognised as **‘Company of the Year.’** However, in just two years, the organisation lost \$2 billion due to rising competition from Dell Computers. The strength behind Dell’s success was its new supply chain design that made it possible for the organisation to deliver customised computers to customers within 24 hours.

Compaq, which was running out of time due to increasing gains of Dell, had to merge with HP. At that time, HP was also sailing in the same boat and lost market share due to effective pricing strategies of Dell. However, HP made quick recovery due to its effective decision making.

The management at HP was quick to analyse threats and took some intelligent measures such as adoption of lean manufacturing practices, development of innovative designs, and effective marketing. Another decision taken by HP was to expand its services to create revenue streams. It also made an extension to its core product by offering consulting and data storage services.



## LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- Define the concept of decision making
- Discuss the process of decision making
- Identify the types of decisions
- Explain the importance of decision making
- Describe the role of information technology in decision making

## 6.1 INTRODUCTION

An organisation has to make a number of decisions related to its work processes, employees, technology, finance, sales, and production on a regular basis. Every decision made by an organisation ultimately affects its overall business performance. Therefore, an organisation needs to be careful while making decisions. A decision is said to be effective if it is made within the given time and by utilising the available resources judiciously.

Decision making is a cognitive process that involves selecting the most appropriate course of action from all available alternatives. It aims at identifying the problem and finding out the solution to that problem. An organisation needs to take into consideration various factors before making any decision, such as economic factors, political factors, and social factors.

Decision making is a logical process that starts with identifying the problem for which a decision is to be made; collecting the relevant information; developing the possible courses of action and selecting the best one; implementing the action; and following up. In this chapter, you will study about the concept and importance of decision making in detail.

## 6.2 CONCEPT OF MANAGERIAL DECISION MAKING

A decision can be described as a conclusion or the best course of action that is derived/selected after thorough consideration. Decision making is a process of selecting the best course of action from all available alternatives. It is a problem-solving method wherein a feasible solution is identified for the prevailing problem. For instance, when an organisation lacks funds, it either needs to raise share capital or take a loan so that the existing problem can be resolved. Different experts have defined decision making differently. The following are some popular definitions of decision making:

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## DEFINITION

According to **Harris**, *Decision making is the study of identifying and choosing alternatives based on the values and preferences of the decision maker. Making a decision implies that there are alternative choices to be considered, and in such a case we want not only to identify as many of these alternatives as possible but to choose the one that best fits with our goals, objectives, desires, values, and so on.*

According to **Koontz and O'Donnell**, *Decision-making is the actual selection from among alternatives of a course of action.*

In the words of **George R. Terry**, *Decision-making is the selection based on some criteria from two or more possible alternatives.*

According to **Louis A. Allen**, *Decision-making is the work which a manager performs to arrive at conclusion and judgment.*

An organisation makes decisions based on its needs and preferences. Apart from this, it has to make decisions within a certain time period. In case decisions are not made within the allotted time, it may lead to the wastage of resources, which ultimately affect organisational performance.



## SELF ASSESSMENT QUESTIONS

1. "Decision-making is the actual selection from among alternatives of a course of action." Identify the speaker of these words.
  - a. Harris
  - b. Koontz O'Donnell
  - c. Louis A. Allen
  - d. George R. Terry
2. A \_\_\_\_\_ can be described as a conclusion or the best course of action that is derived / selected after thorough consideration.
3. An organisation makes decisions based on its needs and preferences. (True/False)



## ACTIVITY

Make a group of four friends. Collect the viewpoint of each of your friend on what do they understand by the term decision making.

### 6.3 PROCESS OF MANAGERIAL DECISION MAKING

In an organisation, managers need to make a number of decisions on a daily basis. For that, they need to perform a sequential process. According to **Baker et al. (2001)**, *Decision making should start with the identification of the decision maker(s) and stakeholder(s) in the decision, reducing the possible disagreement about problem definition, requirements, goals and criteria.* Decision making is a systematic process and is divided into various steps. Figure 6.1 shows the steps involved in the decision-making process:

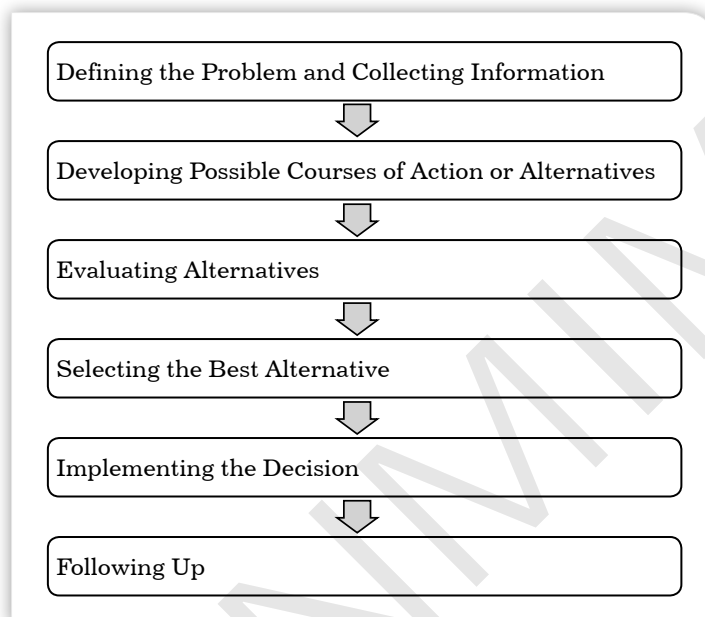


Figure 6.1: Decision-Making Process

Let us discuss the steps in detail.

1. **Defining the problem and collecting information:** This is the first step of the decision-making process wherein managers need to find out the problem for which a decision is to be made. A problem can be related to work or employees. Irrespective of the type of problem, it is of utmost importance for managers to find out the root cause of the problem and make a thorough analysis of the problem. This is because the wrong identification of the problem may lead to inappropriate decision making. This would ultimately lead to unnecessary wastage of time, cost, and efforts.

After defining the problem, managers need to gather information related to the actions taken in the past for the similar kind of problem, consequences of the problem, etc. This information can be collected from various sources, such as one-to-one interactions with people, magazines, newspapers, executive summaries, and vision and mission statements.

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2. **Developing possible courses of action or alternatives:** In this step, managers are required to find out all possible solutions to the problem. This can be done by holding brainstorming sessions or conducting one-to-one interactions with employees. This helps in getting new ideas for problem solving. However, the identification of alternatives must not consume too much time and resources.
3. **Evaluating alternatives:** In this step, managers assess all the alternatives developed in the previous step on the basis of feasibility, implication, and associated risks. In this step, alternatives that meet the requirements are selected and the infeasible ones are eliminated from the list for further consideration. In this way, an explicit list of alternatives is generated.
4. **Selecting the best alternative:** Managers are now required to select the best course of action for solving the defined problem. The alternative that meets the specified requirements using limited resources and time is generally selected.
5. **Implementing the decision:** This is one of the most crucial steps of the decision-making process. In this step, managers implement the selected course of action for solving the defined problem. Implementation can be effective if managers communicate the selected course of action to employees and assign them tasks accordingly.
6. **Following up:** This is the last step in the decision-making process wherein managers ensure that the decision taken is successful in achieving the defined objectives. In case of any deviations, corrective actions are taken on time.

### 6.3.1 DECISION-MAKING MODELS

No organisation can completely depend on a particular set of techniques for solving problems. This is because a problem is analysed from different perspectives by different individuals. Therefore, various models are devised for analysing situations from different outlooks. Some of the important decision-making models are shown in Figure 6.2:

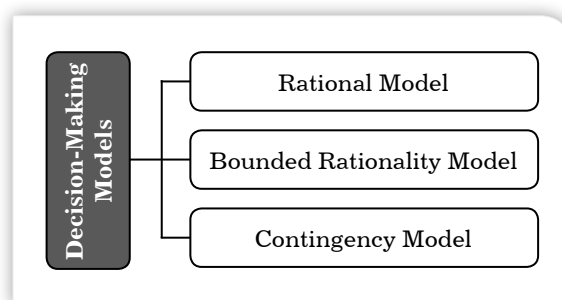


Figure 6.2: Decision-Making Models

Let us discuss these models in detail.

- ❑ **Rational Model:** This is a cognitive model in which managers use their thoughts for analysing the available alternatives and selecting the best one. The rational model is used for making non-programmed decisions, which you will study in the subsequent section of the chapter. This model is based on an assumption that a decision maker has complete information about the impact of the selected alternative. In this model, the decision maker begins with establishing goals, determining the criteria for making the decision, analysing the available alternatives, and finally making a decision.

Let us discuss the seven basic steps, followed under the rational model:

1. **Identifying decision situations:** A decision maker needs to identify the decision making situations that may be in the form of problems or opportunities. A problem exists when a manager finds gap between the desired and actual performance. For example, if a manager finds that employees have more work than they can get done; he/she may decide to hire additional employees. An opportunity exists when a manager identifies a situation that may help in achieving more desirable situation than the current one. For example, Brunswick, in spite of being the number one recreational boat builder in North America, decided to buy Baja Boats as they find the situation as an opportunity to expand into a market niche. The management had a notion that this move would help the company to grow in the future.
2. **Developing objectives and criteria:** The next step after identifying the decision-making situation is to determine the criteria for selecting alternatives. This is important as it helps in establishing the desired outcome. For example, the manager, before deciding which job applicant should be hired, may need to determine the important outcomes needed. If the manager needs to select an employee, effective at sales, he/she should set good interpersonal skills as a criterion. However, setting single criteria is not always sufficient to guide the decision-making process as one factor rarely produces all the desired results. Therefore, it is important to weight various criteria before taking any decision.
3. **Generating alternatives:** Once objectives and criteria are established, the next step is to generate alternatives that could help in achieving the desired outcomes. For example, the manager may generate a list of alternative candidates by using various means like placing an ad in newspapers or trade magazines.

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4. **Analysing the alternatives:** The next step is to analyse the generated alternatives. For this, it is important to examine the feasibility of each alternative. Returning to our hiring example, suppose, the manager found three candidates for the sales position. Now, the manager needs to analyse the prospect of hiring the candidates. The manager finds that the first candidate's salary needs to exceed the budget; therefore the person cannot be selected for the job. Coming to analyse the remaining two alternatives, the manager may rate both the candidates on pre-decided criteria.
5. **Selecting alternative:** After the analysis, it becomes easy to select the most suitable alternative. The rational model suggests that managers select the alternative that maximises the desired outcome. In our hiring example, the manager may rate two candidates A and B and select B as he/she received higher total score on the criteria.
6. **Implementing the decision:** In the rational model, effective decision implementation has few components. First, it is important to assess sources and reasons for possible resistance to decision. For example, a district sales manager, might resist the decision to hire B as A was his good friend. Next, it is also important to determine chronology and sequence of actions designed to overcome the resistance. For example, the manager could sit and discuss with the district sales manager regarding why selecting B was more in benefit of the company rather than hiring A. The third component of decision implementation is to assess resources required to implement decisions effectively. For example, the manager must assess the training needs for newly recruited candidate so that he/she could efficiently adapt to the job role.
7. **Monitoring and evaluating results:** The final step in the rational model is to monitor and evaluate the results of decision implementation. To do this the outcomes should be compared with the set objectives. For example, in case of hiring B, the manager should gather information on his/her work performance and whether his/her hiring is helping the organisation in achieving its objectives.

- **Bounded Rationality Model:** This model was propounded by Herbert Simon. The bounded rationality model is a cognitive decision-making model with limited time to decide. The model assumes that decision making is a rational process of determining the best solution by analysing the given information in a specific time period.

The bounded rationality model describes decision processes in terms of three mechanisms:

1. The rational model assumes that people identify all possible solutions and then select the best alternative. However, in real-

ity, people do not take decisions like this. People evaluate possible solutions to a problem one at a time. If one solution fails then only they seek another one. When an acceptable solution is found people stop searching for other alternatives. Thus, if first alternative works, the effort of finding other alternatives is likely to stop.

2. According to the bounded rationality model, people search for alternatives into areas that have possibility for bringing success. Thus, in our hiring example, the manager instead of deciding several criteria and searching candidates everywhere may hire someone who is already doing such job.
3. The third mechanism of the bounded rationality model is the concept of satisficing, which refers to selecting a minimally accepted solution rather than going further to search more alternatives that could yield the best outcome. Therefore, the rational model focuses on the decision maker as an optimiser. However, the bounded rationality model sees the decision maker as a satisficer.

The bounded rationality model does not seek the best solution (as in case of rational model); instead, it searches a solution that is acceptable. It assesses one solution at a time and describes how decision makers actually identify solutions to organisational problems.

- ❑ **Contingency Model:** This is a situation-based model that assumes that there is no universal model applicable for solving all types of problems. According to this model, decisions must be made in line with all social, political, and economic factors. This model is appropriate for making decisions related to leadership, mentoring, organisational behaviour, etc.

For example, today, organisations, working in a highly competitive environment need to follow the contingency model of decision making in order to maintain a collaborative, cooperative work environment that may not thrive under traditional, hierarchical decision making structures.

In organisations, decision making can be either centralised or decentralised. Let us now discuss these two ways of decision making in next sections.

### 6.3.2 CENTRALISATION

Centralisation is a process by which the authority of decision making is rested in the hands of top management. This type of decision making structure is found in small organisations due to their small size of operations. The following are the main advantages of centralised decision making:

- ❑ Low managerial overheads as authority is rested at one place

## NOTES

- ❑ High degree of consistency as decisions are taken at one point
- ❑ Total participation of top management due to its accountability for the success or failure of decisions
- ❑ Simple decision-making structure as there is a line command (decisions are made at top level and passed to lower levels).

However, centralisation is not free from limitations. The centralised structure promotes strict, autocratic environment that can be detrimental to the health of the organisation. Moreover, it leads to ineffective communication as employees are only required to implement decisions and are not involved in the decision-making process.

### 6.3.3 DECENTRALISATION

In decentralisation, authority of decision making is distributed among employees working at lower levels in an organisation. However, top management has the control of all strategic issues. The decentralised structure is used in large organisations operating at different locations across a country or the world. In such organisations, if decisions are made at a central location, it would be difficult to manage uncertainties and changes in the business environment of different locations.

The following are the advantages of the decentralised structure:

- ❑ Reduction of workload of top management as it is focused on strategic goals
- ❑ Effective utilisation of skills of middle and lower level managers
- ❑ Increase in efficiency and productivity due to an effective communication system.
- ❑ Quick response to changes as decisions are made independently as the need arises.

However, there are some shortcomings of the decentralisation structure, which are shown in Figure 6.3:

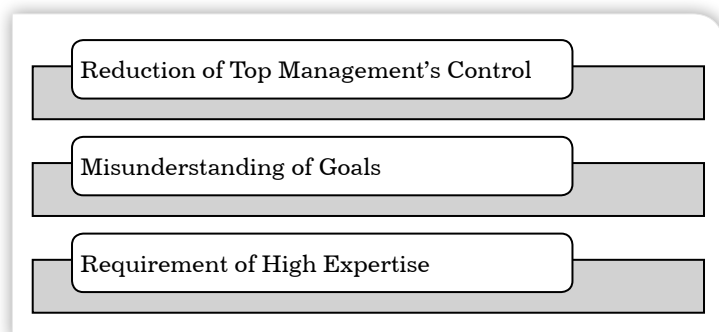


Figure 6.3: Shortcomings of Decentralisation



Let us study these shortcomings in detail.

- ❑ **Reduction of top management's control:** In the decentralised structure, if roles and responsibilities of medium and lower level managers are not properly defined, managers may take decisions as per their own convenience and go beyond the limits defined by the top authority. In such a case, the top management may lose control over its operating units.
- ❑ **Misunderstanding of goals:** In large organisations having many divisions/plants, communication can be distorted due to misunderstanding of corporate goals by employees working in different units.
- ❑ **Requirement of high expertise:** To take decentralised decisions, an organisation needs to hire highly skilled managers having experience in making decisions. This may incur high costs for the organisation.

#### 6.3.4 DISTINCTION BETWEEN CENTRALISATION AND DECENTRALISATION

As discussed in the previous sections, both centralisation and decentralisation have their advantages and disadvantages. Table 6.1 shows the distinction between centralisation and decentralisation:

**TABLE 6.1: DISTINCTION BETWEEN CENTRALISATION AND DECENTRALISATION**

S. No.	Centralisation	Decentralisation
1.	Decisions are taken by upper level managers who have experience in making decisions.	Decisions are taken by middle and lower level managers who may not have expertise in decision making.
2.	Authority is in the hands of top management.	Authority is dispersed to different levels of management.
3.	Executive talent remains unutilised resulting in organisational stagnation.	Organisations incur high costs for keeping specialised staff.
4.	Decisions are often delayed that limits organisational growth.	Decisions are made the moment the need arises.
5.	Suitable for small organisations.	Suitable for large organisations.
6.	Top executives are highly burdened.	Top executives have low burden.

## N O T E S



## SELF ASSESSMENT QUESTIONS

4. Arrange the following steps involved in the decision-making process sequentially:
  1. Defining the problem and collecting information
  2. Evaluating alternatives
  3. Selecting the best alternative
  4. Developing possible courses of action or alternatives
  5. Following up
  6. Implementing the decision
    - a. 1, 2, 3, 4, 5, 6
    - b. 1, 3, 2, 4, 5, 6
    - c. 1, 4, 2, 3, 6, 5
    - d. 1, 4, 2, 3, 5, 6
5. In which decision-making model, managers use their thoughts for analysing the available alternatives and selecting the best one?
6. In the centralised structure, the top management may lose control over its operating units. (True/False)
7. \_\_\_\_\_ decision making structure is found in small organisations due to their small size of operations



## ACTIVITY

Compare the decision making structure of a small organisation with that of a large organisation of your choice. Prepare a report based on the comparison.

## 6.4 TYPES OF MANAGERIAL DECISIONS

In an organisation, there can be different types of decisions made on a daily basis depending on the nature of problems, requirements of the organisation, and external threats and opportunities. The types of decisions made in an organisation are categorised based on two parameters, which are shown in Figure 6.4:

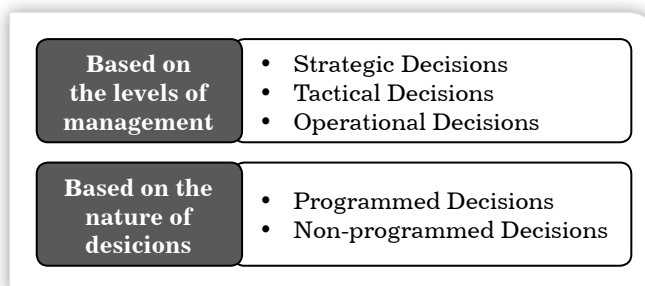


Figure 6.4: Types of Decisions

Let us discuss different types of decisions.

- ❑ **Based on the level of management:** In an organisation, there are three levels of management, namely strategic level (top level), tactical level (middle level), and operational level (low level). To maintain a smooth functioning of the organisation, decisions are made at all three levels. These decisions are:
  - ❑ **Strategic decisions:** These decisions are taken by the top management of an organisation, which includes a board of directors, chief executive officer (CEO), and managing director. Strategic decisions are related to the vision and mission of the organisation and its business strategy. These are the long-term decisions of the organisation and require large investments in terms of money and resources. In addition, these decisions are complex in nature and involve a high degree of risk.
  - ❑ **Tactical decisions:** These decisions are taken by the middle management of an organisation. Tactical decisions are made for implementing the strategic decisions. In other words, managers at middle level take decisions to ensure that the goals established by the top management are accomplished on time.
  - ❑ **Operational decisions:** These decisions are taken by operational managers for deciding the daily operations of an organisation. If these decisions are ineffective, they can hamper the organisation's performance. Therefore, such decisions must be in line with the organisation's overall business strategy.
- ❑ **Based on the nature of decisions:** In an organisation, different types of problems are faced and cannot be solved using one technique. Therefore, the organisation needs to understand the nature of these problems and decide accordingly. On the basis of nature, two types of decisions are taken which are explained as follows:
  - ❑ **Programmed decisions:** These decisions are repetitive in nature and are made on a regular basis. For example, ordering new stocks to replenish inventory in a retail store is a programmed decision. Such decisions are generally made for daily activities.
  - ❑ **Non-programmed decisions:** These decisions are made only when the situation arises. Non-programmed decisions are often made to deal with opportunities and threats, thus, require careful analysis of all business factors. Such decisions are made by top management. For example, the decision of expanding operations across the border is a non-programmed decision which may be taken after analysing opportunities in overseas markets.

#### 6.4.1 DIFFERENCES BETWEEN PROGRAMMED AND NON-PROGRAMMED DECISIONS

Programmed and non-programmed decisions are taken by organisations depending on their requirements. However, there are certain

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differences between these two types of decisions, which are shown in Table 6.2:

<b>TABLE 6.2: DIFFERENCES BETWEEN PROGRAMMED AND NON-PROGRAMMED DECISIONS</b>		
<b>Point of Difference</b>	<b>Programmed Decisions</b>	<b>Non-programmed Decisions</b>
Type of decision	These are routine decisions made for carrying out daily operations of an organisation.	These decisions are made at the moment the need arises after taking into consideration various factors.
Nature of decision	These decisions are procedural in nature; thus predictable. Well-defined criteria are set for making such decisions.	These decisions are novel and are based on different criteria.
Decision-making strategy	Rules and computing formulas are used for making these decisions	A creative approach, judgment, and principles are used to make these decisions.
Decision-making technique	Various techniques are used such as management science, capital budgeting, and computerised models.	Managers' judgment, creativity, and intuition are used.

**SELF ASSESSMENT QUESTIONS**

8. Which one of the following is related to the vision and mission of the organisation and its business strategy?
  - a. Tactical decision
  - b. Operational decision
  - c. Programmed decision
  - d. Strategic decision
9. \_\_\_\_\_ decisions are repetitive in nature and are made on a regular basis.
10. Non-programmed decisions are made by lower management. (True/False)

**ACTIVITY**

Talk to the manager of McDonald's outlet in your vicinity and discuss about the strategic and tactical decisions made there. Make a report on these decisions.

## 6.5 IMPORTANCE OF MANAGERIAL DECISION MAKING

As mentioned earlier, decision making is a process of selecting the best alternative after careful analysis of all the available alternatives. The effectiveness of major functions, such as planning, organising, directing and controlling, depends on the efficiency of decisions made. Figure 6.5 shows the importance of managerial decision making in an organisation:

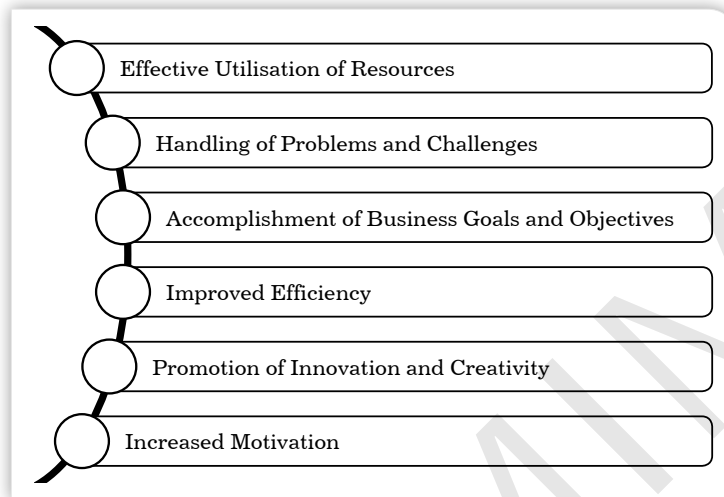


Figure 6.5: Significance of Decision Making

Let us discuss the importance of decision making in detail.

- ❑ **Effective utilisation of resources:** An organisation needs to carry out its day-to-day activities by using limited resources. These resources are men, money, machine, material. If these resources are over-utilised, it may incur extra costs for the organisation. On the other hand, underutilised resources would hamper the functioning of operations. Effective decision making helps in making optimal utilisation of resources by allocating resources as per requirements.
- ❑ **Handling of problems and challenges:** In a business environment, various problems and challenges arise due to sudden changes. An organisation needs to respond to these problems at the earliest for its long-term survival. Effective decision making can help the organisation in tackling the complications of the business environment.
- ❑ **Accomplishment of business goals and objectives:** Decision making is crucial to the attainment of business goals and objectives. Managers make rational decisions by making a careful analysis of all possible alternatives and their impact on the functioning of the organisation. This leads to accomplishment of organisational goals and objectives within the stipulated time.

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- ❑ **Improved efficiency:** In an organisation, efficiency is measured in terms of costs and profits. High profits and low costs are the indicator of high efficiency. Decision making helps in lowering costs by improving the utilisation of resources, thereby increasing profits. This ultimately improves the efficiency of the organisation.
- ❑ **Promotion of innovation and creativity:** When rational decision making takes place in an organisation, new ideas, processes, and concepts are generated. It results in innovation and creativity, which enable an organisation to respond quickly to changes in the business environment.
- ❑ **Increased motivation:** In an organisation, decision making motivates employees to perform to their best capabilities. It encourages them to take ownership of problems and solve them after careful analysis of all the possible solutions. When decisions taken by employees are successful, they bring both monetary and non-monetary benefits to the organisation as well as to the employees. This motivates employees to contribute to the success of the organisation.



## SELF ASSESSMENT QUESTIONS

11. Rational decision making results in innovation and creativity, which enable an organisation to respond quickly to changes in the business environment. (True/False)
12. Which one of the following is not a resource?
 

a. Men	b. Money
c. Machines	d. Marketing



## ACTIVITY

Make a group of four friends and hold a discussion on the importance of decision making in a manufacturing organisation operating at medium scale.

## 6.6

INFORMATION TECHNOLOGY AND  
MANAGERIAL DECISION MAKING

As discussed earlier, decision making involves careful analysis of all possible alternatives to determine the most suitable one. Decision making takes place at all the levels of management (top level, middle level, and lower level). To make effective decisions, managers need complete and adequate information about various business processes of an organisation.

Information is a well-processed form of data that has a specific meaning and purpose. It is a valuable asset of an organisation that ensures effective decision making. Therefore, an organisation should manage

and store its information in a manner so that it can be easily retrieved as and when required. With the advent of information technology, there have been many computerised systems introduced for effective decision making. These systems are called information systems.

An information system is a set of interrelated components that collect, stores, processes, generates, and disseminates information for effective business decision making. For example, an organisation wishes to increase its profits by improving the efficiency of its sales function. In such a case, an information system can help the organisation to make effective sales decisions by providing information related to current market trends, needs and preferences of customers, and availability of similar products.

There can be different types of information systems used in organisations depending on their requirements. Figure 6.6 shows some important types of information systems:

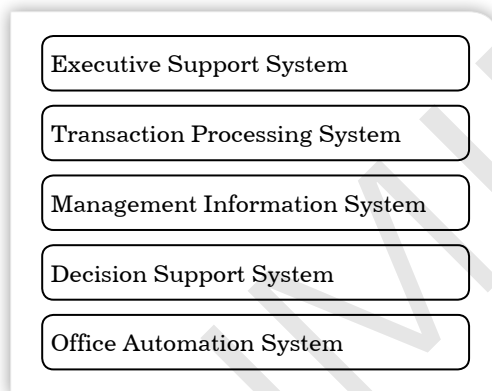


Figure 6.6: Different Types of Information Systems

Let us discuss these information systems in detail.

- ❑ **Executive Support System (ESS):** It is an information system used by executive-level managers to make non-programmed decisions. It presents information in the form of summarised reports. ESS also provides analytical tools that help managers in predicting performance outcomes in the given time period.

Let us take an example that illustrates how ESS allows organisations to involve in more pro-active decisions. Suppose a CEO needs to analyse which products may yield high return on the advertising investment. In normal cases, the CEO would log into an inventory management database to find out which products have remained on the shelves for longest without any movement. After identifying the product, he could get the product that is likely to yield the highest return. However, with the help of ESS, things work backwards. ESS sends an alert to the CEO so that he/she could immediately know that product “A” was stored for “N” number of days, or that the warehouse storage costs for product “A” have exceeded a certain total amount. Analysing the ESS report,

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the CEO would alert his sales and marketing team to find ways to move product “A” off the shelves. Here, the ESS gives the CEO a commanding position to find the best solutions to move the products that are maximising the warehouse storage cost.

- ❑ **Transaction Processing System (TPS):** This system is used to record all types of transactions that occur in an organisation. For example, all the purchases made by organisations are recorded in TPS. In TPS, there are two types of transaction processing:
  - ◆ **Batch transaction processing:** In this type of processing, all the transactions are gathered in batches for processing. Processing of cheques in a banking system is an example of batch transaction processing.
  - ◆ **Real-time transaction processing:** In this type of processing, a transaction is processed immediately. For example, withdrawal of money from a bank account is immediately fed into an on-line database of the bank.
- ❑ **Management Information System (MIS):** It is an integrated system that provides information to support the decision making process of an organisation. MIS enables managers to perform various management functions, such as planning, organising, directing, and controlling, by providing detailed information about different business processes. The most important components of MIS are:
  - ◆ Hardware
  - ◆ Software
  - ◆ Procedures
  - ◆ Data
  - ◆ People

Worldwide, a number of organisations are now using some MIS for transmitting and sharing information with each other in a quick and inexpensive manner. For example, 3M, known for its products, such as Post-it Notes and Scotch tape, operates in more than 60 countries and uses online information system so that all its senior executives could get their information from the online database. Similarly, a British-based retailer Marks & Spencer uses MIS generated from customer credit cards customise its marketing efforts. It regularly updates its process for supplying products to stores after studying its customer database.

- ❑ **Decision Support System (DSS):** It is an interactive software-based system that produces information from raw data, documents, and personnel knowledge. The main components of DSS are database, the model or criteria to be used for analysis, and user interface. DSS helps managers to make decisions in situations when there is uncertainty about the possible outcomes of the decisions.



Take an example of a national online book store that wants to start selling its books internationally. However, to do so, it would require determining whether it would be a wise business decision. To eradicate this uncertainty, the store can use DSS to gather information from its own resources (using a tool, such as OLAP) and from external resources (such as industry data) to regulate whether the store has the capability of expanding its business and there is indeed a demand to meet.

- ❑ **Office Automation System:** It is a computerised system that helps in making decisions related to day-to-day administrative and business activities performed in an organisation. These activities may include raw data storage, electronic data transfer, and the management of electronic business information.

Office automation system or OAS integrates office functions, related to managing information. OAS electronically shares information between more than one user simultaneously. An example of OAS is an electronic meeting system that allows geographically dispersed participants to exchange information in real time. Electronic sharing systems usually use a telephone line connection to transfer data. Similarly, electronic mail can be used to forward electronic messages from one user to another.



#### SELF ASSESSMENT QUESTIONS

13. An \_\_\_\_\_ is a set of interrelated components that collects, stores, processes, generates, and disseminates information for effective business decision making.
14. DSS is a computerised system that helps in making decisions related to day-to-day administrative and business activities performed in an organisation. (True/False)



#### ACTIVITY

Using the Internet, find out the main functioning of MIS in an organisation of your choice. Make a report defining the role of MIS in decision making.

## 6.7 SUMMARY

- ❑ A decision is a course of action or a conclusion that is derived after consideration of many factors.
- ❑ Decision making is a problem solving process of selecting a feasible solution from all available alternatives.
- ❑ The decisions-making process in an organisation involves a number of steps, such as defining the problem and collecting informa-

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tion, developing possible courses of action or alternatives, evaluating alternatives, selecting the best alternative, implementing the decision, and following up.

- ❑ Organisations can use various types of decision making models for finding the solutions to problems. There are three models that are commonly used in organisations: rational model, bounded rationality model, and contingency model.
- ❑ An organisation has a centralised decision-making structure if the authority of decision making is rested in the hands of top management.
- ❑ In decentralised decision-making structure, the authority is dispersed at lower levels of management
- ❑ In an organisation, decisions can be categorised on the basis of levels of management or nature of decisions.
- ❑ On the basis of levels of management, decisions are classified as strategic decisions, tactical decisions, and operational decisions.
- ❑ Decisions classified on the basis of their nature are programmed decisions, and non-programmed decisions.
- ❑ Decision making is important to organisations as it leads to effective utilisation of resources, handling of problems and challenges, improved efficiency, increased motivation, etc.
- ❑ Effective decision making requires correct, complete and timely information for analysis. For this, various information systems are used, such as ESS, TPS, MIS, DSS, and OAS.



## KEY WORDS

- ❑ **Brainstorming:** A problem-solving technique wherein creative ideas and solutions for a specific problem are generated through group discussions.
- ❑ **Electronic Data Transfer:** A process of transmitting data from one location to the other using various electronic channels such as emails and Web chats.
- ❑ **Hardware:** Consists of the physical components of a computer such as monitor, mouse, and CPU.
- ❑ **Line command:** A type of hierarchy followed in organisations wherein the authority of decision making lies with the top management. The decisions made by top managers are passed on to lower management.
- ❑ **Software:** Set of programs or instructions designed to perform a defined function, such as operating system.

## 6.8 DESCRIPTIVE QUESTIONS

1. What do you understand by decision making? Explain.
2. Discuss the steps involved in the decision-making process.
3. Name three decision-making models used in organisations. Explain them in detail.
4. What are the differences between programmed and non-programmed decision?
5. Describe the importance of managerial decision making.
6. Write a short note on TPS and MIS.

## 6.9 ANSWERS AND HINTS

### ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No.	Answers
Concept of Managerial Decision Making	1.	b. Koontz O'Donnell
	2.	Decision
	3.	True
Process of Managerial Decision Making	4.	c. 1, 4, 2, 3, 6, 5
	5.	Rational model
	6.	False
Types of Managerial Decisions	7.	Centralised
	8.	d. Strategic decision
	9.	Programmed
Importance of Managerial Decision Making	10.	False
	11.	True
	12.	d. Marketing
Information Technology And Managerial Decision Making	13.	Information system
	14.	False

### HINTS FOR DESCRIPTIVE QUESTIONS

1. Decision making can be described as a process, wherein the best course of action is selected from all available alternatives. Refer to Section 6.4 Concept of Managerial Decision Making.

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2. The process of decision making involves numerous steps, such as defining the problem and collecting information, developing possible courses of action or alternatives, evaluating alternatives, selecting the best alternative, implementing the decision, and following up. Refer to Section **6.5 Process of Managerial Decision Making**.
3. There are three types of decision-making models that are used in organisations, namely rational model, bounded rationality model, and contingency model. Refer to Section **6.5 Process of Managerial Decision Making**.
4. Programmed decisions are made on a regular basis, thus are repetitive in nature; whereas non-programmed decisions are made at the time of need. Refer to Section **6.6 Types of Managerial Decisions**.
5. Managerial decision making helps an organisation in many ways, such as effective utilisation of resources, handling of problems and challenges, improved efficiency, and increased motivation. Refer to Section **6.7 Importance of Managerial Decision Making**.
6. TPS is used to record various types of transactions that occur in organisations. Refer to Section **6.8 Information Technology and Managerial Decision Making**.

## 6.10 SUGGESTED READINGS & REFERENCES

### SUGGESTED READINGS

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NMIMS

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# 7

## C H A P T E R

### LEADERSHIP

#### CONTENTS

- 7.1 Introduction
- 7.2 Meaning of Leadership
  - 7.2.1 Characteristics of a Leader
  - 7.2.2 Types of Leaders
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  - 7.2.4 Role of Leaders
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## INTRODUCTORY CASELET

## LEADERSHIP BY STEVE JOBS AT APPLE INC.



Apple Inc. is an American multinational corporation that designs and markets consumer electronics, computer software, and personal computers. It is famous for its world-class hardware products including the Macintosh line of computers, iPod, iPhone and iPad. The Apple's software includes the Mac OS X operating system; the iTunes media browser; the iLife suite of multimedia and creativity software; etc.

From its inclusive aesthetic designs to its unique advertising campaigns, Apple has established an exclusive name in the consumer electronics industry. Today, the organisation has a large base of loyal customers. However, the success story of Apple cannot be written without one man- Steve Jobs and his charismatic leadership style.

Steve Jobs co-founded Apple in 1976 in his parent's garage. Though he was forced to leave the company in 1985, he returned to save it from nearly being bankrupt in 1997. It was simply due to the charismatic personality of Steve Jobs that by October 2011, when he passed away, he had established Apple Inc. as the most valuable company of the world.

Steve Jobs had always been considered as a captivating leader and speaker known for his ability to mesmerise the audience with his vast vision. He had profound knowledge and understanding of technologies combined with a visionary talent. All that helped him to efficiently communicate his dreams to his employees so that they could execute these dreams.

Steve Jobs had a boundless urge for product excellence. He always focused on designing products with elegance and simplicity. Jobs used to get deeply engrossed into the details of product design and its marketing. It was his charismatic leadership style that enabled him to boost the enthusiasm of his employees to achieve more by performing apparently impossible tasks.



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However, he did not always motivate his employees by storytelling but also by force. In words of **Steve Jobs**, *My job is to not be easy on people. My job is to make them better. My job is to pull things together from different parts of the company and clear the ways and get the resources for the key projects. And to take these great people we have and to push them and make them even better, coming up with more aggressive visions of how it could be.*

Once, on the questions of his tendency to be rough on people, he answered, *Look at the results. These are all smart people I work with, and any of them could get a top job at another place if they were truly feeling brutalized. But they don't. And we got some amazing things done.* It was indeed the charm of his leadership style that when he was battling his final illness, he was surrounded by an extremely loyal team of colleagues who had been inspired by him for years.

When Steve Jobs re-joined Apple in 1997, the company was producing a random array of computers and was almost on the verge of bankruptcy. With his joining, Jobs started working on a new strategy. He made a two-by-two grid, where atop the two columns, he wrote “Consumer” and “Pro” and labelled the two rows “Desktop” and “Portable.” He further instructed his team to focus on developing four great products for each quadrant and cancel all the other products. This was a strong step, but it ultimately saved the company. In the words of Steve Jobs, *Deciding what not to do is as important as deciding what to do. That's true for companies, and it's true for products.*

Jobs persistently filtered out what he considered distractions. To decide on new projects, he used to ask, *What are the ten things we should be doing next?* and people used to fight to give their suggestions. When they come up with a list of ten things, Jobs used to slash the bottom seven and declare, *We can only do three.*

Steve Jobs was a visionary leader and it was truly his charm that he used to not only effectively communicate his visions to his team members but also get the seemingly impossible things done. All these attributes had made Steve Jobs to be remembered as one of the most charismatic leaders of the world.

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## LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- Explain the concept of leadership
- Differentiate between leadership and management
- Discuss how leadership affects team work competency
- Explain the role of leadership in group decision making

## 7.1 INTRODUCTION

In the past, many well-known organisations like Lucent, Chrysler, Lehman Brothers, Northern Rock, Merrill Lynch, Satyam Computers etc. either closed their operations or were taken over. What do you think can be the possible reasons for the failure of such organisations? As per research reports, these organisations failed to adapt to change, implement their strategies successfully, and prepare for the uncertain future. All these reasons are centred on one main cause that is ineffective leadership.

Leadership is a process wherein an individual influences the thoughts, attitudes, and behaviour of another individual or a group of individuals towards common goals. In today's dynamic business scenario, long-term sustainability of an organisation depends a great deal on effective leadership. A leader sets a clear vision and stimulates people to contribute towards the accomplishment of that vision. A successful leader has ability to motivate people to excel in their respective operational areas.

Take example of Ratan Tata who set a new strategic approach for the Tata Group when he took it over in 1991. At the time, Tata Group had no mark in international business. Ratan Tata felt the need of going global in order to reduce the risk of dependence on an economy of a single country. He started acquiring a huge number of companies, such as the Tetley Group, the Daewoo Commercial Vehicle Company and Boston's Ritz-Carlton hotel (now the Taj Boston) using a case-by-case, trial-and-error approach. The success of this going global move was not only due to the explicit and careful strategic approach but also by Ratan Tata's personal vision for how to compete across international markets.

In an organisation, leaders are responsible for providing direction to employees and driving them to work collectively to achieve organisational goals and objectives. They solve problems quickly, engage employees in decision making, and take support from employees in implementing planned cross-functional actions. For this, leaders should have a sense of responsibilities, strong values, and an unbiased attitude. In this chapter, you will study the concept and importance of leadership in detail. In addition, you will study about the roles and functions of leaders in an organisation.

## 7.2 MEANING OF LEADERSHIP

Leadership is an individual's skill to make strong decisions and inspire others to perform efficiently. In the organisational context, leadership is an ability of an individual to influence an employee or a group of employees toward the attainment of a vision or a set of goals. Different management experts have defined leadership differently. The following are some definitions of leadership:

According to **Chester Bernard**, *Leadership is the quality of behaviour of the individual whereby they guide people on their activities in organised effort.*

According to **Livingston**, *Leadership is the ability to awaken in others the desire to follow a common objective.*

According to **Keith Davis**, *Leadership is a human factor, which binds a group together and motivates towards the particular goals.*

According to **Koontz and O'Donnell** *Leadership is the ability to exert interpersonal influence by means of communication towards achievement of goals.*

According to **Encyclopaedia of Social Sciences**, *Leadership is the relation between an individual (leader) and a group (followers) around some common interests and behaving in a manner directed or determined by the individual (leader).*

According to **Management guru Peter F Drucker**, *Leadership is the lifting of people's vision to a higher sight, the raising of their performance to a higher standard, the building of their personality beyond its normal limitation.*

A leader is one who trains and influences people having diverse abilities and skills to work in a coordinated manner and achieve organisational goals and objectives. Traditionally, the term leader was used for an administrator who was responsible for managing office activities. However, over the passage of time, the scope of leaders has increased in an organisational setting. Leaders are now responsible for guiding, managing, and controlling the performance of teams. Leadership nowadays is not confined to giving advice and issuing orders to subordinates rather it is all about coordinating with team members, understanding their issues, supporting them, and evaluating their performance.

### 7.2.1 CHARACTERISTICS OF A LEADER

A leader has ability to influence a group of people towards the achievement of common goals and objectives. In an organisation, the performance of people depends a great deal on the efficiency of leaders. An efficient leader is said to be one who has a set of characteristics, which are shown in Figure 7.1:

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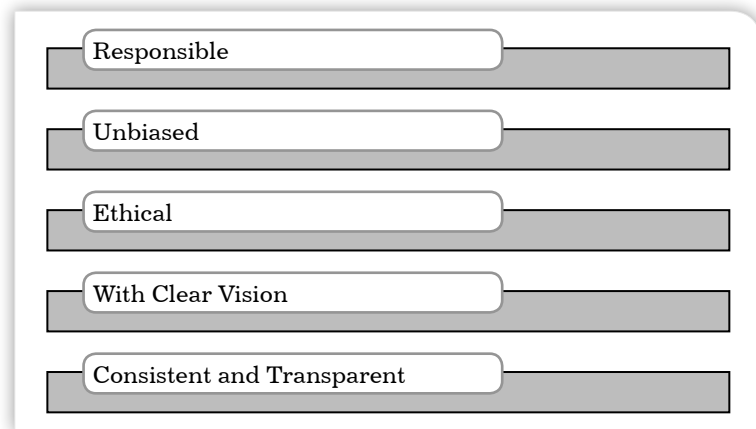


Figure 7.1: Characteristics of a Leader

Let us discuss the characteristics of a leader in detail.

- ❑ **Responsible:** A leader is a person who takes responsibility for every decision taken by him/her and sets an example for others. He/she should promote cooperative effort within team to ensure that the team works in direction of achieving set goals and objectives. In addition, it is also a responsibility of a leader to provide the team members with the skills and resources needed to do their jobs. It ultimately helps in creating an environment where the team members learn to take accountability for their decisions and actions.
- ❑ **Unbiased:** A leader needs to be reasonable, ethical and unbiased while taking decisions. Remaining unbiased is necessary as it helps in right decisions and influence people to implement these decisions.
- ❑ **Ethical:** Leaders have specific beliefs and core values that they adhere too. A leader is a person who recognises the importance of ethical behaviour. He/she exhibits both values and ethics in his/her leadership style. Lack of ethics and values in leader's behaviour and action leads to mistrust in the team and organisation as whole. Therefore, it is important for a leader to hold strong values and exhibit them in their behaviour and actions to encourage and influence others.
- ❑ **With clear vision:** An effective leader needs to have a clear vision or picture of where the organisation would reach in the future. For this, he/she should be well-aware of organisational goals and should be able to align them with individual goals. Having a clear vision helps a leader to get the tasks and activities done within the stipulated time. It is the clear vision that enables leaders to motivate people to accomplish organisational goals and inculcate team spirit in them.
- ❑ **Consistent and transparent:** Consistency indicates the extent to which a leader maintains the same level of commitment under any

situation. A leader who is random in his/her approach would not be able to gain the trust of his/her team members. In addition, a leader should maintain transparency while communicating organisational goals and objectives to team members and assigning tasks to them to meet those goals.

Besides the above characteristics, a successful leader should also have ability to:

- ❑ Plan and manage time for accomplishing tasks and activities successfully.
- ❑ Guide employees in the right direction.
- ❑ Bridge gaps between top-level management and people working at lower levels.
- ❑ Allot the right tasks to the right people in order to achieve goals successfully.
- ❑ Hold discussions with team members and understand their needs.
- ❑ Manage change even under difficult situations.
- ❑ Build good relationships between internal and external customers.

### 7.2.2 TYPES OF LEADERS

In an organisation, classification of leaders is done on the basis of their core competencies, proficiency, skills, and experience. Figure 7.2 shows leaders at different levels of an organisation:

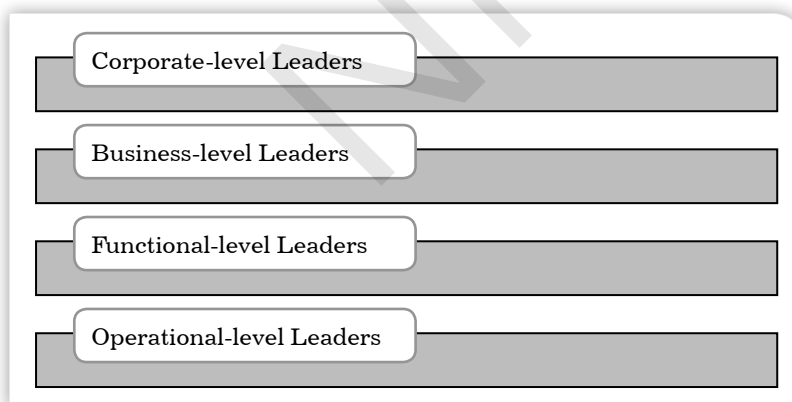


Figure 7.2: Types of Leaders

Let us discuss different types of leaders.

- ❑ **Corporate-level leaders:** They are top-level leaders such as Chief Executive Officers (CEOs), presidents, directors, and senior executives. Corporate-level leaders direct business-level leaders for taking and implementing strategic decisions.
- ❑ **Business-level leaders:** They include divisional or regional leaders, such as vice presidents, general managers, and portfolio man-

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agers, who carry out the direction given by corporate-level leaders. Business-level leaders direct functional-level leaders.

- ❑ **Functional-level leaders:** They include departmental heads, such as finance manager, marketing manager, and production manager. These leaders carry out the direction of business-level leaders and support employees performing specific project functions.
- ❑ **Operational-level leaders:** It includes leaders who undertake the responsibility of executing plans and strategies within functional areas. Such leaders guide employees working at lower levels of an organisation. Assistant managers and deputy managers are the examples of operational-level leaders.

### 7.2.3 STYLES OF LEADERSHIP

Different leaders follow different leadership styles to achieve the defined goals. Leadership styles vary based on the attitude, personality, approach, and working patterns of leaders. For example, some leaders keep the authority of making decisions in their own hands, while some may pass a certain degree of authority of decision making to their subordinates. Figure 7.3 lists different leadership styles:

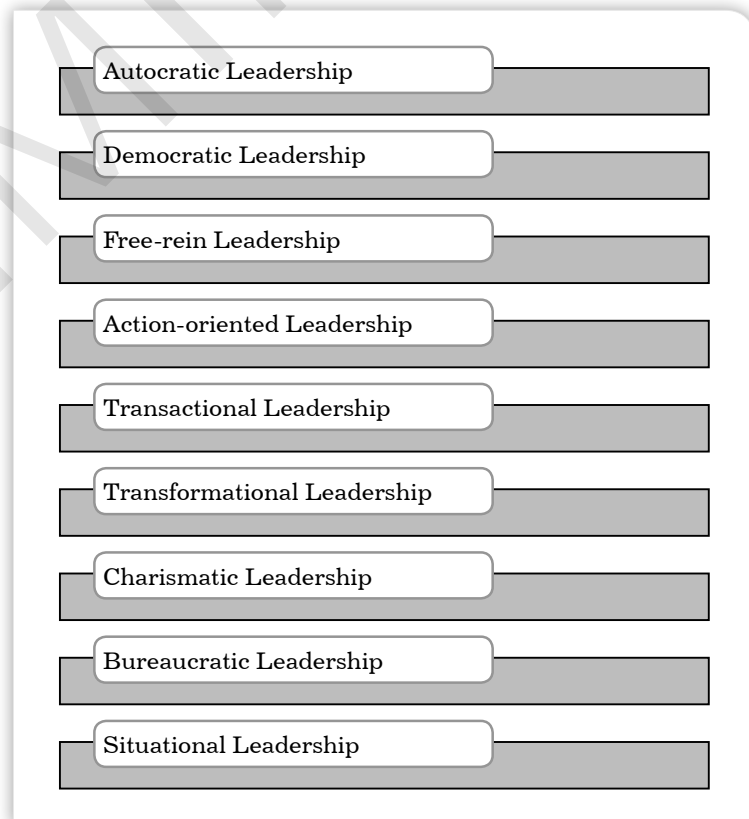


Figure 7.3: Different Leadership Styles

Let us discuss different leadership styles in detail.

- ❑ **Autocratic leadership:** It is a style of leadership wherein leaders issue orders and control subordinates through rewards and punishments. Leaders who follow the autocratic style of leadership believe in exercising some degree of power.
- ❑ **Democratic leadership:** It is a style of leadership where leaders encourage subordinates to participate in decision making. Leaders who follow the democratic style of leadership believe in sharing ideas with their subordinates.
- ❑ **Free-rein leadership:** It is a style of leadership where leaders give complete freedom to subordinates to set their individual goals and perform accordingly. This style of leadership is effective if leaders have highly trained and self-motivated subordinates.
- ❑ **Action-oriented leadership:** In this style of leadership, leaders are only concerned with getting the jobs done on time. They define deadlines, brief up the requirements, and monitor the progress.
- ❑ **Transactional leadership:** It is a leadership style where leaders exercise disciplinary power and motivate employees by exchanging awards for performance. The transactional leadership style is concerned with maintaining the normal flow of operations and does not take into consideration the strategic position of the organisation in the future.
- ❑ **Transformational leadership:** In this leadership style, leaders believe in taking the organisation or work teams to the next level of performance and success. This is done through team building, motivation, and collaboration among employees at different levels of the organisation. The main aim of executing the transformational change is to bring major changes in the organisation.
- ❑ **Charismatic leadership:** It is the style of leadership where leaders use their personal charm to inspire others towards the accomplishment of goals and objectives. Thus, these leaders are given authority to bring change in the organisation.
- ❑ **Bureaucratic leadership:** It is a style of leadership where leaders follow a close set of standards to ensure the accuracy of work. Bureaucratic leaders strictly follow organisational rules and policies and ensure that employees also adhere to the rules and procedures.
- ❑ **Situational leadership:** It is a style of leadership where it is assumed that there is no perfect style of leadership and effective leadership is subjected to requirements. As per this style, the most successful leaders are those who adapt their leadership style as per the need and demands of tasks.

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**7.2.4 ROLE OF LEADERS**

In an organisation, leadership is a pervasive function that is required at all levels of management. For example, at the top level, leaders need to coordinate the efforts of people for formulating plans and policies. At the middle and lower levels, leaders need to ensure that plans and policies framed by the top management are executed effectively. Figure 7.4 lists the roles of leaders in an organisation:



Figure 7.4: Role of Leaders

Let us discuss the role of leaders in detail.

- ❑ **Planning:** It is one of the most important roles of leaders. The accomplishment of any project within the stipulated time depends on how effectively it is planned. Therefore, a leader should be a good planner and should design a result-oriented project plan.
- ❑ **Motivating employees:** Any activity of an organisation needs employees for its successful execution. Employees associated with a project may at times be required to perform under stringent work schedules. This increases the chances of conflicts and distress, which may hamper the performance of employees. Therefore, a leader should be able to encourage employees by addressing their issues and exchanging rewards and recognition for performance.
- ❑ **Communicating goals and objectives:** An effective leader clearly conveys the expectations of an organisation to employees. If employees are aware of organisational goals and objectives, they will better perform to accomplish those goals and objectives.
- ❑ **Inculcating team spirit:** An organisation can successfully accomplish any goal if it is pursued by an effective team. Therefore, leaders should strive to promote a cohesive team environment in the organisation.



- ❑ **Making effective decisions:** A leader is accountable for every decision made by him/her. Therefore, it is important that a leader takes right decisions related to the selection of employees, investment opportunities, allocation of resources, etc.

### 7.2.5 FUNCTIONS OF LEADERS

Leaders support and motivate employees to improve their performance. They promote imagination, foresight, enthusiasm, and initiative in an organisation. The following are the basic functions of leaders:

- ❑ Motivating employees to improve their performance.
- ❑ Influencing employees through rewards and punishments.
- ❑ Developing an effective organisational culture to achieve maximum employee efficiency.
- ❑ Promoting creativity and innovation.
- ❑ Delegating authority to subordinates to make decisions.
- ❑ Planning and organising organisational tasks
- ❑ Addressing the needs and expectations of subordinates.
- ❑ Managing organisational resources.
- ❑ Developing the skills of employees.
- ❑ Interacting with subordinates and resolving their problems.

### 7.2.6 IMPORTANCE OF LEADERSHIP

From the discussion so far, it can be said that leadership is an ability of a person to make other people together realise some goals that they may not achieve individually. In an organisation, leaders set a direction for people; communicate to people where the organisation wants to reach in the future; encourage people to achieve the organisation's vision. Without leadership, conflicts may arise among a group of people. This is because different people may have different perspectives of looking at things. Leaders drive people in the same direction and harness their efforts jointly. Moreover, effective leadership helps an organisation to quickly respond to changes in the business environment; thereby sustaining its competitive position. The following points explain the significance of leadership in an organisation:

- ❑ Leaders establish a clear vision.
- ❑ They communicate the same vision to others.
- ❑ They resolve conflicts among individuals.
- ❑ Leaders are responsible for managing and controlling organisational activities.
- ❑ They organise and coordinate various economic resources.
- ❑ They accomplish activities within the stipulated time.

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## SELF ASSESSMENT QUESTIONS

1. Define leadership in an organisational context.
2. “Leadership is the ability to exert interpersonal influence by means of communication towards achievement of goals.”- Identify the speaker of these words.
3. \_\_\_\_\_ includes leaders who undertake the responsibility of executing plans and strategies within functional areas.
4. In which style of leadership leaders give complete freedom to subordinates to set their individual goals and perform accordingly?
  - a. Action-oriented leadership
  - b. Democratic leadership
  - c. Free-rein leadership
  - d. Autocratic leadership
5. Charismatic leaders use their personal charm to inspire others towards the accomplishment of goals and objectives. (True/False)



## ACTIVITY

Suppose you are a handling a project having stringent deadlines. Although you have very efficient team, you have limited resources to manage the project. List the necessary skills and qualities that you would require as a leader for the effective management of the project.

### 7.3 LEADERSHIP VS. MANAGEMENT

The two terms **management** and **leadership** are used interchangeably. However, these two are different concepts but are interlinked and complementary to each other. Management is all about handling complexity, while leadership is about managing change. Managers strive to bring consistency by formulating plans, designing a formal organisational hierarchy, and measuring results against the plans. Leaders set a vision for the future, communicate the vision to people, and inspire them to achieve that vision. Managers are relatively risk-averse and try to avoid conflicts wherever possible. Leaders, on the other hand, consider it natural to encounter risks that must be dealt to get the work done. Warren Bennis, an American scholar, provides the following differences between managers and leaders:

- ❑ A manager does the administration work; a leader works on innovation.

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- ❑ A manager maintains; a leader develops.
- ❑ A manager focuses on systems and structures; a leader focuses on people.
- ❑ A manager relies on control; a leader gains trust.
- ❑ A manager has a short-range view; a leader has a long-term perspective.
- ❑ A manager asks how and when; a leader asks what and why.
- ❑ A manager has his/her eyes always on the bottom line or profits; a leader has his/her eyes on horizon or new developments.
- ❑ A manager accepts and maintains the status-quo; a leader challenges and changes it.
- ❑ A manager does things right; the leader does the right things.

Table 7.1 distinguishes between a manager and a leader on the basis of some general parameters:

TABLE 7.1: DIFFERENCES BETWEEN A MANAGER AND A LEADER		
Essence	Stability	Change
Focus	Managing work	Leading people
Have	Subordinates	Followers
Horizon	Short-term	Long-term
Seeks	Objectives	Vision
Approach	Plans detail	Sets direction
Decision	Makes	Facilitates
Power	Formal authority	Personal charisma
Appeal to	Head	Heart
Energy	Control	Passion
Culture	Enacts	Shapes
Dynamic	Reactive	Proactive
Persuasion	Tell	Sell
Style	Transactional	Transformational
Exchange	Money for work	Excitement for work
Likes	Action	Striving
Wants	Results	Achievement
Risk	Minimises	Takes
Rules	Makes	Breaks
Conflict	Avoids	Uses

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Essence	Stability	Change
Direction	Existing roads	New roads
Truth	Establishes	Seeks
Concern	Being right	What is right
Credit	Takes	Gives
Blame	Blames	Takes

(Source: [http://changingminds.org/disciplines/leadership/articles/manager\\_leader.htm](http://changingminds.org/disciplines/leadership/articles/manager_leader.htm))

In spite of the differences between leadership and management, in today's competitive business environment, organisations need both strong management and effective leadership to achieve efficiency. An effective leader may set the vision of an organisation; however, a good manager defines what should be done to achieve that vision. Without efficient management, the vision set by a leader cannot be sustained. Similarly, management practiced without effective leadership would lead to a lack of creativity and innovation.



## SELF ASSESSMENT QUESTIONS

6. \_\_\_\_\_ is all about handling complexity, while \_\_\_\_\_ is about managing change.
7. Managers consider it natural to encounter risks that must be dealt to get the work done. (True/False)
8. Distinguish between a manager and a leader on the basis of style.



## ACTIVITY

Meet the marketing head of a marketing research firm. Hold a discussion with him/her on the roles and responsibilities performed by him/her. Ask him/her how he/she balances the roles of both a manager and a leader under different situations.

## 7.4 LEADERSHIP AND TEAMWORK

In today's business environment, organisations cannot imagine their success without effective teams. Organisations need teams to produce good quality products and services, deliver these products and services to customers on time, expand business, and so on. The main aim of working in teams is to combine the skills and talents of people to achieve a common purpose effectively. However, teams may lose their purpose and deviate from their goal without effective leadership.

Leaders motivate people to work collectively to achieve organisational goals and objectives. They consider the abilities and preferences

of team members before assigning them tasks. Leaders address the needs and concerns of team members and resolve conflicts, which, in turn, encourage members to perform efficiently. Moreover, leaders focus on developing the skills of team members so that the members can make their own decisions and work efficiently toward organisational goals and objectives. Figure 7.5 shows the skills that a leader strives to inculcate in team members:

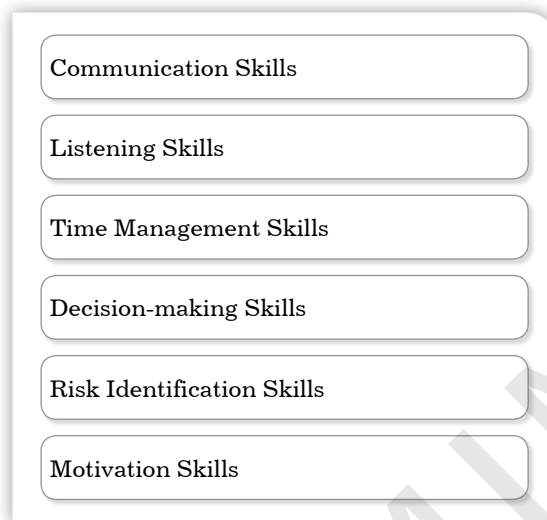


Figure 7.5: Skills to be Possessed by Team Members

- ❑ **Communication skills:** A communication gap is one of the major causes of poor productivity of people. To remove such gap, leaders encourage their team members to be good communicators so that they can freely share their thoughts with each other. Good communication skills help team members in developing cordial relationships with other team members and management; avoid confusions; and resolve conflicts. Leaders develop communication skills of team members using various tools, such as group discussions, one-on-one sessions, and role plays.
- ❑ **Listening skills:** Good listening skills are equally important for team members in order to work efficiently. These skills help team members to understand their roles clearly and determine various aspects of a task, such as the duration, requirement of resources, and desired quality level. Poor listening skills may lead to wrong decisions by team members, which would affect their productivity adversely. Thus, leaders focus on developing good listening skills of team members. Observations and feedback sessions are two important tools for developing listening skills.
- ❑ **Time management skills:** Every project in an organisation has a starting and end point. Any delay in the completion of a project may bring losses for the organisation. Thus, team members are required to complete their assigned tasks on time so that the proj-

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ect can be delivered within the stipulated time period. For this, it is important that team members should have good time management skills. Leaders strive to develop time management skills of team members using various methods like goal setting, prioritisation of tasks, weekly reviews, to-do lists, etc.

- ❑ **Decision-making skills:** Leaders are usually responsible for taking all major decisions related to organisational activities. However, when a project is executed, there may be a need to take immediate decisions and a leader may not be available at that point in time. In such cases, team members are required to take spontaneous decisions in order to maintain the project flow. Team members can take effective decisions if they have good decision making skills. To develop the skills of team members, leaders should delegate authority of decision making to members and support them from time to time.
- ❑ **Risk identification skills:** Every organisational activity is subject to a certain degree of risk. However, risks can incur huge losses for an organisation if not identified and managed on time. For example, a team associated with a software development project should be able to identify potential bugs that may interrupt the smooth functioning of software. Therefore, a leader must focus on building a competent team in which the members are able to assess risks involved in activities and take appropriate actions to mitigate such risks.
- ❑ **Motivation skills:** Motivating people is not the solo responsibility of a leader rather team members should be self-motivated to perform any task collectively. Thus, it is important for a leader to understand the needs of team members and resolve their problems so that the members are keen to work toward the completion of tasks.



## SELF ASSESSMENT QUESTIONS

9. What is the main aim of working in teams?
10. Leaders develop \_\_\_\_\_ skills of team members using various tools, such as group discussions, one-on-one sessions, and role plays.
11. To develop the skills of team members, leaders should delegate authority of decision making to members. (True/False)



## ACTIVITY

Visit an IT organisation and meet its quality head. Hold a discussion on the skills he looks for in his team mates. What steps does he take to develop those skills in his team mates?

## 7.5

**LEADERSHIP AND GROUP  
DECISION MAKING**

Earlier, top management was responsible for taking all types of business decisions. Employees working at middle and lower levels were bound to implement the decisions made by the top management. This mindset was an outcome of scientific management advocated by Frederick Taylor during in the 19<sup>th</sup> century. This mindset worked well till the advent of mass production that required specialisation for improvement in productivity. However, with an increase in competition and awareness of employees, a need for participative management was felt for the successful accomplishment of organisational goals and objectives.

In today's business environment, employees are required to work in groups and take decisions collectively. These decisions can be related to setting the future direction of an organisation; solving organisational problems; deciding work methods; forecasting staff requirements; making structural modifications; and so on. Group decision making requires effective coordination and integration of group members. As every member of a group has different perspectives, thoughts, and ideas, there are chances that they may disagree on various aspects. This can give rise to conflicts among group members, which adversely affect group performance as well as organisational performance. Here, the role of leaders comes into the picture.

Effective leaders tap the creativity, learning, awareness, and abilities of group members and encourage them to take decisions collectively. They also influence employees to share their knowledge and skills; provide inputs for decision making; give suggestions for improvement; engage in cross-functional teams; and contribute to various management initiatives. This results in increased employee motivation and productivity over a period of time.

However, group decision making depends largely on the leadership style of a leader. Tannenbaum, Schmidt and Crosby suggested the following leadership styles for decision making:

- ❑ **Autocratic:** Autocratic decisions are made by the leader or manager and are handed down to the team without any discussion or consultation. Autocratic decision making is sometimes necessary as it helps in situations when a decision needs to be made quickly. This style is mostly used for making monetary and crisis decisions. This is because; in such situations there may not be much time to consult others or doing so could lead to bigger problems.
- ❑ **Consultative and collaborative:** Such decision making requires and uses opinions and inputs of team members. This kind of decision making involves leaders who ask for feedback and viewpoints

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before taking any decision. They do so to know what the team feels about the options that are there to be considered for taking a decision. Such consultative style of decision making allows active participation from the team. Team members utilise their knowledge and creativity to give the leader the information that could help him/her in making the best decision. Collaborative decision leads to a consultative environment in an organisation rather than the traditional direct command system. However, the ultimate decision making power still remains with the leader and it is totally up to him/her to accept/reject the opinions of the team members.

- ❑ **Consensus or group decision:** This kind of decision making involves the team and allows them to be in the charge of making decision. It could be done with a vote, which is similar to that of a democratic vote. These decisions can be taken either by majority vote or by reaching consensus. Such decisions help in giving voice to everyone in the team/organisation. However, leaders should ensure that employees are willing to participate in group decision making.
- ❑ **Convenience or delegation:** Some leaders prefer delegating their decision making tasks. They do so by assigning the decision making task to the team members or subordinates. As the leader refrains himself/herself from making a decision, it becomes important for him/her to explicitly explain the parameters and goals of making a decision to team members or subordinates. To facilitate effective decision making, leaders communicate team clearly what needs to be done and encourage them to take responsibility for decision making. Such decision making style helps in empowering team members and developing their decision making skills.



## SELF ASSESSMENT QUESTIONS

12. With an increase in competition and awareness of employees, a need for \_\_\_\_\_ was felt for the successful accomplishment of organisational goals and objectives.
13. Group decision making requires effective \_\_\_\_\_ and \_\_\_\_\_ of group members.
14. Discuss the role of leadership in developing a consultative environment in an organisation.



## ACTIVITY

Visit any organisation in your vicinity and observe what approach of decision making is being followed there. Prepare a report on pros and cons of the approach followed in the organisation.



## 7.6 SUMMARY

- ❑ Leadership is ability of individuals to inspire or influence others to perform efficiently in order to achieve common goals.
- ❑ An effective leader has various characteristics of a leader include responsibility, unbiased trust, strong values, clear vision, consistency, and transparency.
- ❑ In an organisation, classification of leaders is done on the basis of their core competencies, levels of proficiency, skills, and experience. In an organisation, there can be leaders at corporate, business, functional, and operational levels.
- ❑ A leader follows various leadership styles to achieve the defined goals. The different styles of leadership include autocratic leadership style, democratic leadership style, free-rein leadership style, action-oriented leadership style, transactional leadership style, transformational leadership style, charismatic leadership style, bureaucratic leadership style, and situational leadership style.
- ❑ In an organisation, leaders perform various roles, such as planning, motivating employees, communicating goals and objectives, inculcating team spirit, and making effective decisions.
- ❑ Leadership and management are two different concepts but are interlinked and complementary to each other. Management is all about handling complexity, while leadership is concerned with managing change.
- ❑ Leaders focus on developing the skills of team members so that they can make their own decisions and work efficiently toward organisational goals and objectives. These skills include communication skills, listening skills, time management skills, decision-making skills, risk identification skills, and motivation skills.
- ❑ Effective leaders tap creativity, learning, awareness, and abilities of group members and encourage them to take decisions collectively.



### KEY WORDS

- ❑ **Goal setting:** A process of deciding the desired outcome and devising a plan to achieve that outcome.
- ❑ **Innovation:** A process of doing something in a new way or transforming an idea into generating something new that creates value.
- ❑ **Participative management:** A style of management where all employees take part in the decision-making process of an organisation.
- ❑ **Strategy:** A plan designed to achieve long-term objectives.
- ❑ **To-do list:** A list of activities that are needed to be accomplished on the basis of priority.

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**7.7 DESCRIPTIVE QUESTIONS**

1. Explain the concept and significance of leadership.
2. Discuss the characteristics of a leader.
3. Write a note on various leadership styles followed by leaders?
4. 'Though, leadership and management are different in meaning, they are interlinked, and complementary to each other.' Discuss.
5. What are the skills that a leader tries to inculcate in team members to achieve team work competency?
6. Discuss the role of leadership in group decision making.

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

Topic	Q. No.	Answers
Meaning of Leadership	1.	In the organisational context, leadership is an ability of an individual to influence an employee or a group of employees toward the attainment of a vision or a set of goals.
	2.	Koontz and O'Donnell
	3.	Operational-level leaders
	4.	c. Free-rein leadership
	5.	True
Leadership vs. Management	6.	Management, leadership
	7.	False
	8.	A manager follows transactional style of working, while a leader follows transformational style of working.
Leadership and Teamwork	9.	The main aim of working in teams is to combine the skills and talents of people to achieve a common purpose effectively.
	10.	Communication
	11.	True
Leadership and Group Decision Making	12.	participative management
	13.	Coordination, integration

Topic	Q. No.	Answers
	14.	Leaders communicate employees clearly what needs to be done and encourage them to take responsibility for decision making. It leads to a consultative environment in an organisation rather than the traditional direct command system.

### HINTS FOR DESCRIPTIVE QUESTIONS

1. Leadership is an ability to inspire others to perform efficiently. Refer to Section **7.4 Meaning of Leadership**.
2. A leader has various characteristics, such as responsibility, unbiased trust, strong values, clear vision, consistency, and transparency. Refer to Section **7.4 Meaning of Leadership**.
3. A leader follows various leadership styles to get the work done. Various leadership styles followed by leaders are autocratic, democratic, free-rein, action-oriented, transactional, etc. Refer to Section **7.4 Meaning of Leadership**.
4. An effective leader may set the vision of an organisation; however, a good manager defines what should be done to achieve that vision. Refer to Section **7.5 Leadership vs. Management**.
5. A leader focus on developing certain skills of team members, such as communication skills, listening skills, time management skills, decision-making skills, risk identification skills, and motivation skills. Refer to Section **7.6 Leadership and Team Work**.
6. Effective leaders tap the creativity, learning, awareness, and abilities of group members and encourage them to take decisions collectively. Refer to Section **7.7 Leadership and Group Decision Making**.

## 7.9 SUGGESTED READINGS & REFERENCES

### SUGGESTED READINGS

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# 8

## C H A P T E R

### MOTIVATION

#### CONTENTS

- 8.1 Introduction
- 8.2 Meaning of Motivation
  - 8.2.1 Need for Motivation
    - Self Assessment Questions
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  - 8.3.1 Traditional Theories
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- 8.5 Summary
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- 8.8 Suggested Readings & References

## N O T E S

## INTRODUCTORY CASELET

## EMPLOYEE MOTIVATION AT STARBUCKS



Based in Seattle, Washington, US, Starbucks Corporation is one of the most popular coffee shop chains in the world. It has 23,187 stores operating in 64 countries. The company was started by three friends, namely Jerry Baldwin, Zev Siegl and Gordon Bowker, who opened a small shop in 1971 in Seattle, Washington's Pike Place market. Today, Starbucks deals in various hot and cold beverages, pastries, sandwiches, and other snacks.

Starbucks has gained global popularity due to its world-class services, comfortable environment, and quality products. The company believes in the philosophy that satisfied employees satisfy customers. As per Hewitt Associates Starbucks Partner View Survey, Starbucks employees have an 82% job-satisfaction rate. In addition, Starbucks maintains one of the lowest worker turnover rates in the industry with an extremely diverse workforce. As the rates of annual turnover of other national chain retailers are comparatively higher, the lower employees' turnover rate symbolises an employee-friendly environment at Starbucks.

Motivation is a vital factor for Starbucks to gain strong commitment from employees. The company considers motivation as the most essential part of work life as it inspires employees to put in their best efforts to attain corporate goals. Thus, Starbucks looks out for various monetary and non-monetary ways to motivate its employees and increase their productivity.

According to Chief Executive Officer (CEO) of Starbucks, Howard Schultz, the main reason of the company's success is its efficient employees. Only this can help the company to serve its customers with total service commitment. Methods that Starbucks uses to attain strong commitment from employees are:

**EQUAL TREATMENT**

Starbucks treats every employee equally and considers them as partners irrespective of their designation. As mentioned in its mission statement, Starbucks is committed to *"provide a great work environment and treat each other with respect and dignity."* The company also focuses on reducing the gap between super-

## INTRODUCTORY CASELET

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visors and entry-level employees to maintain a friendly working environment, which, in turn, motivates employees.

### LISTEN TO EMPLOYEES

Starbucks has developed an excellent communication network for employees. A strong communication network helps in paying attention to the needs and concerns of employees. For example, weekly interviews are conducted to understand employees' needs and get their feedback on various aspects. A special survey, Partner View Survey, is also conducted in every two years to seek the opinions and suggestions of employees. Starbucks ensures total participation of employees in decision making. In this way, it gets innovative, new, and fresh ideas from employees.

### GOOD WELFARE MEASURES

Starbucks offers all employees a great deal of welfare policies, such as commodity discounts and medical insurance. The employees/partners who work for more than 20 hours a week are entitled to get these benefits. Starbucks also allocates stock dividend to its employees for their good performance. This policy motivates the employees to increase sales and bring more profits to the company. In this way, by giving respect to employees and providing them with a friendly environment, Starbucks provides the best quality services to customers; thereby increasing profits.

In addition to this, Starbucks gives extensive training to its employees on product knowledge, guiding principles for success, empowerment, and the significance of creating great customer experiences. All these measures help Starbucks in not only retaining employees but also retaining existing customers and acquiring new one.

### STRATEGIES TO MAINTAIN GOOD RELATIONSHIPS

Starbucks ensures cordial relationship between managers and employees. Managers at outlets use the title *partner* to minimise the gap between managers and entry-level employees. In addition, the suggestions and opinions of employees are considered important. Likewise, employees have a right to participate in the process of modifying corporate policies. Thus, Starbucks develops a sense of participation in employees and makes them feel respected.

The people-driven philosophies have made Starbucks one of the world's most admired companies of the world. Its leaders create a unique corporate culture brimming with empowerment, entrepreneurship, quality, and service. Employees, on the other hand create a unique and personal experience for customers by providing them with positive and uplifting experiences.

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## LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- Explain the concept of motivation
- Discuss the importance of motivation
- Describe various motivation theories
- List various tools for motivation

## 8.1 INTRODUCTION

In an organisation, every employee is expected to perform effectively and achieve increased productivity. However, the level of employee productivity depends purely on the extent to which an employee is motivated to perform efficiently. Motivation can be defined as an individual's willingness to exert high levels of efforts in the pursuit of organisational goals and objectives. To put simply, motivation is an act of stimulating the behavior of an individual with the aim to achieve the desired outcome.

Motivation is of paramount importance for an organisation as it leads to higher efficiency, improves employee morale, reduces absenteeism, builds a corporate image, and facilitates creativity and innovation. In an organisation, the motivation level of employees is influenced by various monetary and non-monetary factors. Monetary factors include salaries, bonus, and incentives, while non-monetary factors involve status, job title, appreciation, recognition, job security, delegation of authority, etc.

Many classical and modern scholars and behaviourists have propounded different theories as an attempt to understand the importance of motivation in organisations. The Maslow's need hierarchy of needs theory is the most popular classical theory which is based on an assumption that people are motivated by a series of needs. These needs are psychological needs, safety needs, social needs, esteem needs, and self-actualisation needs. On the other hand, The Existence, Relatedness and Growth (ERG) theory, McClelland's Need Theory, and equity theory of motivation are some modern motivation theories. In this chapter, you will study about the concept and importance of motivation in detail.

## 8.2 MEANING OF MOTIVATION

The term motivation has been derived from a Latin word *movere*, which means **to move**. Motivation can be defined as a basic psychological process or an internal feeling that helps individuals to attain their personal and professional goals in an efficient manner. In the organi-



sational context, it generates a drive among people to work collectively and move in a desired direction with an aim to achieve organisation goals. It involves the biological, emotional, social and rational forces that stimulate the behaviour of individuals. Motivation not only helps individuals to achieve goals on time but it also paves a way for them to coordinate and communicate with others. Motivation has been defined by several psychologists and behaviour analysts. The following are some definitions of motivation:

**Dale S. Beach**, an author of the book *Personnel: Management of People at Work* (1965), said *Motivation can be defined as a willingness to expand energy to achieve a goal or a reward.*

According to **Robert Dubin**, an author of *Human Relations in Administration* (1974), *Motivation is the complex of forces starting and keeping a person at work in organisation.*

According to **Michael J. Jucius** author of *Personnel Management* (1950), *Motivation is the act of stimulating someone or oneself to get a desired course of action, to push the right button to get a desired reaction.*

According to **W. G. Scott**, author of many organisational behaviour books, *Motivation means a process of stimulating people to action to accomplish desired goals.*

According to **Dalton E. McFarland**, an important personality in the field of business management and author of many books on management, *The concept of motivation is mainly psychological. It relates to those forces operating with the individual employee or subordinate which impel him to act or not to act in certain ways.*

According to **Billy J. Hodge** and **Herbert J. Johnson** (the authors of the book *Management and Organisational Behaviour: A Multi-dimensional Approach*) (1970), *Motivation in organisational settings refers to the willingness of an individual to react to organisational requirements in the short run. The greater the magnitude of positive motivation of an individual towards the organisation, the more is the likelihood that he will perform effectively in his position, even if it causes some amount of personal deprivation.*

To summarise, motivation is a process that stimulates individuals to act or behave in a certain direction be it their personal or professional lives.

### 8.2.1 NEED FOR MOTIVATION

In an organisation, if employees are motivated, they will show greater commitment towards the achievement of organisational goals and objectives.

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Figure 8.1 shows the need for motivation in an organisation:



Figure 8.1: Need for Motivation

Let us discuss the need for motivation in detail.

- ❑ **Productive use of human resource:** Human resource is a valuable asset of an organisation. Poor performance of employees may have serious impact on the performance of the organisation. If employees are motivated, they would make efficient use of their skills and competencies to perform work, which would increase overall organisational efficiency.
- ❑ **Low absenteeism and turnover:** Motivated employees are less likely to get absent or switch to other organisations. High rate of absenteeism and attrition may bring financial losses for an organisation, which affects its performance adversely. Motivated employees perform their work with greater zeal and enthusiasm, do not take frequent offs, and show stability in the organisation. In addition, motivated employees are loyal towards the organisation.
- ❑ **Good corporate image:** Employees play an important role in influencing the corporate image of an organisation. If employees are motivated to work efficiently, they would also work towards the fulfilment of customer needs. This builds a good image of the organisation in the market.
- ❑ **Development of friendly relationships:** Motivated employees are usually open to express their thoughts and views with others. This bridges communication gap and resolves conflicts among employees; thereby developing cordial relationships between employees and between management and employees.
- ❑ **Achievement of goals:** Motivation drives a goal-directed behaviour that encourages employees to put their efforts towards

the accomplishment of organisational goals. This increases overall organisational efficiency and productivity.

- ❑ **Increased job satisfaction:** Job satisfaction is basically an employee's perception about how well his/her job meets his/her expectations. Motivation helps employees in developing a positive attitude towards work, which increases their job satisfaction. For instance, if employees feel that they are being treated unfairly by their superiors in spite of working so hard, they will develop a negative attitude towards their job. On the other hand, if they feel that they are being rewarded by their superiors for their hard work, they will feel motivated and have greater job satisfaction.



#### SELF ASSESSMENT QUESTIONS

1. \_\_\_\_\_ can be defined as a basic psychological process or an internal feeling that helps individuals to attain their personal and professional goals in an efficient manner.
2. "Motivation means a process of stimulating people to action to accomplish desired goals."- Identify the speaker of these words.
3. Motivated employees are more likely to switch to other organisations. (True/False)
4. Which of the following is basically an employee's perception about how well his/her job meets his/her expectations?
  - a. Job satisfaction
  - b. Good corporate image
  - c. Development of friendly relationships
  - d. Low absenteeism



#### ACTIVITY

Visit a BPO and meet its HR manager. Discuss the need and significance of motivation in the BPO sector where workforce turnover is one of the major issues.

### 8.3 THEORIES OF MOTIVATION

In an organisation, motivation encourages individuals to direct their actions towards the realisation of organisational goals. Traditionally, it was believed that employees are motivated by just giving opportunities of making money. However, later, it was realised that employees are not motivated by only providing money-making opportunities rather their other needs should also be considered.

Numerous psychologists, such as Herzberg, McClelland, Abraham Maslow, and McGregor have given various theories to understand

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the concept and importance of motivation. Motivational theories are broadly categorised into two types, which are shown in Figure 8.2:

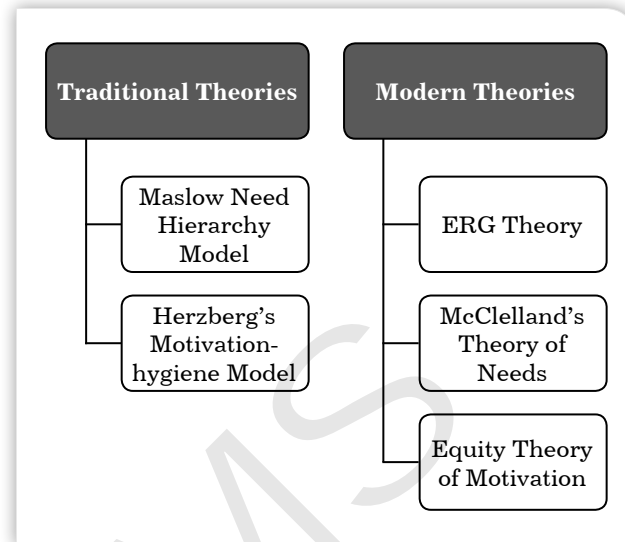


Figure 8.2: Different Theories of Motivation

Let us discuss these theories in detail in the next sections.

### 8.3.1 TRADITIONAL THEORIES

Traditional theories of motivation aim to provide a basic understanding of how to motivate people in an organisation. These theories explain motivation in terms of financial factor only. It provides an insight that people behave in a certain way to maximise their monetary income. Traditional theories advocate that people work harder if they find adequate material rewards associated with the task. These theories also assume that people have a strong fear of punishment in case of non-performance. These punishments can be passing of awards to other employees, hold in promotions, less hike in salary, etc. F.W. Taylor was the first major supporter of traditional theories. However, later on, these theories were supported by many classical thinkers.

However, traditional theories of motivation were strongly criticised by human behaviourists. According to them, traditional theories of motivation neglect socio-psychological factors; thereby underestimating human motivation. According to Chester Barnard, “It seems to me to be a matter of common experience that material rewards are ineffective beyond the subsistence level excepting to a very limited population of men; that most men neither work hard; nor can be induced thereby to devote more than a fraction of their possible contribution to organisational effort.”

The Maslow’s need hierarchy theory and Herzberg’s motivation-hygiene theory are two important traditional theories of motivation. Let us discuss these two theories in detail.

### MASLOW'S NEED HIERARCHY MODEL

The need hierarchy theory is the most renowned theory of motivation given by the eminent psychologist Abraham Maslow. It is a classical depiction of human motivation. According to Maslow, individuals are motivated by unsatisfied needs. As each of these needs is significantly satisfied, it drives and forces the next need to emerge. The Maslow's hierarchy of needs is often portrayed in the shape of a pyramid with the most fundamental levels of needs at the bottom and the need for self-actualisation at the top, as shown in Figure 8.3:

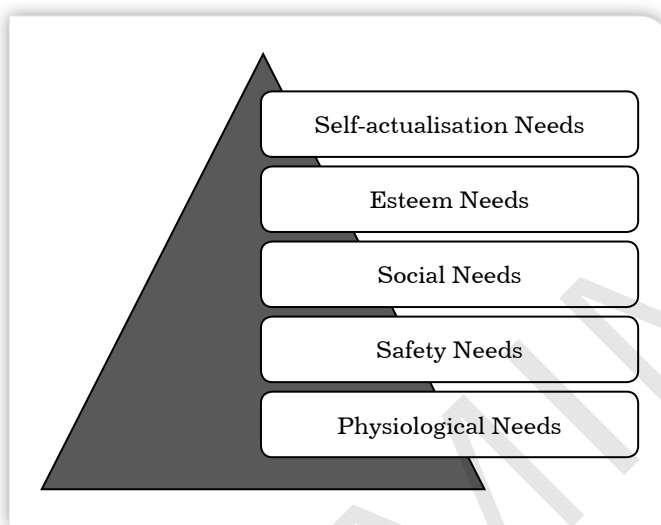


Figure 8.3: Maslow's Need Hierarchy Model

The levels of needs given by Maslow are explained as follows:

- ❑ **Physiological needs:** These needs include the basic needs for food, clothing, and shelter.
- ❑ **Safety needs:** These needs include needs for protection from physical and emotional harm.
- ❑ **Social needs:** These needs include needs for affection, belongingness, acceptance, and friendship.
- ❑ **Esteem needs:** These needs include needs for internal esteem factors, such as self-respect, autonomy, and achievement as well as external esteem factors, such as status, recognition, and attention.
- ❑ **Self-actualisation needs:** These needs include a drive for individuals to become what they are capable of becoming. Self-actualisations needs include the need for growth, need for realisation of one's potential, and need for self-fulfilment.

Figure 8.3 represents that the hierarchy of needs works from the bottom of the pyramid towards the top. As the needs at one level get considerably satisfied for an individual, the needs at the next level become dominant. According to Maslow, physiological and safety needs

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are considered to be the lower-order needs and are satisfied by external factors, such as salary or work tenure. However, social, esteem, and self-actualisation needs are higher order needs and are satisfied by internal factors, such as growth and development.

If a manager follows the Maslow's hierarchy for motivating employees, it is essential for the manager to determine the existing needs of the employees. The existing need level of employees can be utilised as push for motivation.

Although the Maslow's theory explains the hierarchy of needs in a simple and easy manner, it has the following drawbacks:

- ❑ All employees may not be governed by the same set of needs. Different individuals may be driven by different needs at the same point of time.
- ❑ An individual may have two different types of needs at the same time. In such a case, following a particular type of hierarchy may not be feasible. For example, the physiological and social needs of an individual may be dominant at the same time.
- ❑ Measuring some needs, such as the self-actualisation needs is challenging.

### HERZBERG'S MOTIVATION-HYGIENE MODEL

A psychologist Frederick Herzberg proposed the two-factor theory, which is also known as the motivation-hygiene theory. This theory explains people's expectations about their jobs. Herzberg interviewed 200 engineers and accountants to identify the factors that motivate them. He asked people to describe the situations when they felt good or bad about their jobs. From the responses given by people, Herzberg concluded that two sets of factors are related to job satisfaction and job dissatisfaction. According to him, the factors involved in job satisfaction are completely different from that of job dissatisfaction. He called the former set of factors as satisfiers/motivators/growth factors/intrinsic factors and the latter sets of factors as dissatisfiers/ hygiene factors/maintenance factors/extrinsic factors. These factors are discussed as follows:

- ❑ **Satisfiers/motivators/growth factors/intrinsic factors:** These factors represent people's perception about their jobs. Examples of intrinsic factors include achievement, recognition, responsibility, advancement, growth, etc. These factors help in increasing the job satisfaction of employees.
- ❑ **Dissatisfiers/hygiene factors/maintenance factors/extrinsic factors:** These are the factors whose absence can cause dissatisfaction among employees. Examples of extrinsic factors are rules and regulations, supervision, job security, salary, working conditions, personal life, status, etc.

According to Herzberg, hygiene factors generate job dissatisfaction as they tend to avoid unpleasantness. On the other hand, motivators generate job satisfaction because of the need for growth. In words of Herzberg, *At the psychological level, the two dimensions of job attitudes reflected a two dimensional need structure; one need system for the avoidance of unpleasantness and a parallel need system for personal growth.* Thus, an appropriate combination of motivators and hygiene factors leads to better employee satisfaction.

The Herzberg's motivation-hygiene theory can be summarised in the following points:

- ❑ The factors that lead to job satisfaction are distinct from the factors that lead to job dissatisfaction.
- ❑ The reverse of job satisfaction is not job dissatisfaction, but 'no job satisfaction'.
- ❑ The reverse of job dissatisfaction is not job satisfaction, but 'no job dissatisfaction'.

In an organisational context, Herzberg divided people into two categories, which are:

- ❑ **Motivation seekers:** They are people who are primarily motivated by the intrinsic factors, such as advancement and achievement.
- ❑ **Hygiene seekers:** They are people who are more concerned with factors that surround the job. These factors may include supervision, working condition, salary, etc.

The limitations of Herzberg's motivation-hygiene theory are as follows:

- ❑ Determining the reliability of the two-factor theory is difficult due to lack of clear understanding about intrinsic and extrinsic factors.
- ❑ Using the two-factor theory is inflexible as different people may have different factors that influence their satisfaction level.

In spite of all the criticism, the Herzberg's motivation-hygiene theory is an extensively used and well-known theory of motivation.

### 8.3.2 MODERN THEORIES

In contrast to the traditional theories of motivation, modern theories of motivation advocate that motivation is a complex psychological process. Modern theorists explain that there are several internal and external variables that affect the motivation level of employees at workplace.

As the questions started arising on the comprehensiveness of traditional theories of motivation, many theories strived hard to find new aspects of motivation and developed modern theories of motivation.

## N O T E S

The ERG theory, McClelland's theory of needs, and equity theory of motivation are some important modern theories of motivation. Let us discuss these theories in detail in the next sections.

### ERG THEORY

The Existence, Relatedness and Growth (ERG) theory was developed by an American psychologist Clayton Alderfer. He synchronised the Maslow's need hierarchy theory by categorising five levels of needs into three simpler and broader classes of needs. Figure 8.4 shows the ERG theory presented by Alderfer:

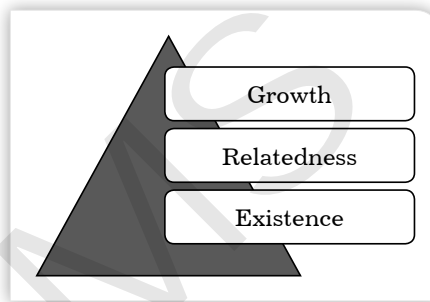


Figure 8.4: Levels of Needs in the ERG Theory

Let us discuss these levels in detail.

- ❑ **Existence:** These needs are concerned with fulfilling the basic requirements for the existence of individuals. Maslow's physiological and safety needs are included in this group.
- ❑ **Relatedness:** These needs are concerned with the desire of individuals for maintaining important interpersonal relationships. Individuals who possess a dominant desire for affiliation feel a need to interact with others in order to satisfy that desire. Maslow's social and esteem needs are included in this group.
- ❑ **Growth:** These needs are concerned with the self-development of an individual. According to Alderfer, growth is an intrinsic desire for personal development. Maslow's esteem and self-actualisation needs are included in this group.

The ERG theory states that if the lower order needs are satisfied, it leads to a desire for satisfying higher order needs. This theory states that multiple needs can act as motivators at the same time and attempt to satisfy higher order needs, which can result in the regression of lower order needs.

### MCCLELLAND'S THEORY OF NEEDS

The McClelland's Need Theory was given by a well-known psychologist David McClelland. According to him, individuals have specific needs over a period of time. These needs are shaped by the life experience.



periences of individuals. He advocated that the needs of individuals fall into three categories, which are achievement, power, and affiliation. These needs affect individuals' motivation level and their effectiveness in a particular job. McClelland had given a motivational model that explains how the needs for achievement, power and affiliation affect the actions of people. This model is shown in Figure 8.5:

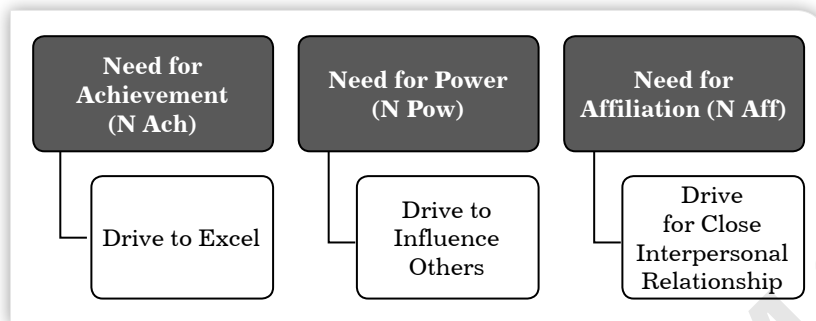


Figure 8.5: McClelland's Need-Drive Relationships

Figure 8.5 shows the three needs of individuals and their three respective drives. These needs and drives are explained as follows:

- ❑ **Need for Achievement (NAch):** Individuals with high NAch get motivated if they are given challenging tasks because they are creative, hardworking and open minded. They like to set difficult targets and solve complex problems. Such individuals prefer jobs that require personal responsibility, feedback, and moderate or calculative risks.
- ❑ **Need for Power (NPow):** Individuals with high NPow like to control and affect the behaviour of others as they are manipulative in nature. If these individuals use their traits positively, they can become successful managers and good leaders who believe in a democratic style of leadership. On the other hand, if they use their traits negatively, they become autocratic style leaders.
- ❑ **Need for Affiliation (NAff):** Individuals with high NAff have an urge to develop interpersonal relationships. Such individuals perform better in situations where they get personal support. They avoid conflicts with others and develop harmonious relationships with others. They may continue working in an organisation because they have a good friend circle even though they are not happy with the organisation's policies. The efficiency or performance level of such individuals increases when they work in a team with their friends.

### EQUITY THEORY OF MOTIVATION

The equity theory has been given by J. Stacy Adams, a workplace and behavioural psychologist. The theory states that individuals compare their job inputs and results with that of others. If they find inequality,

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it creates negative or positive feelings among them or decides their level of motivation/demotivation.

According to Adams, employees value fair treatment or equity-based behaviour within the organisation. This further motivates employees to restore or maintain this equity/fairness in the organisation. Equity is measured by comparing the ratios of efforts that an employee puts and benefits that he/she gets in return. Employees consider that they are treated fairly if the ratio of their inputs to the benefits is equivalent to those around him. If all employees at the same position are rewarded or get benefitted in the same way, it makes employees realise that the organisation is fair, observant, and appreciative. Figure 8.6 shows the four comparisons that an employee can make:

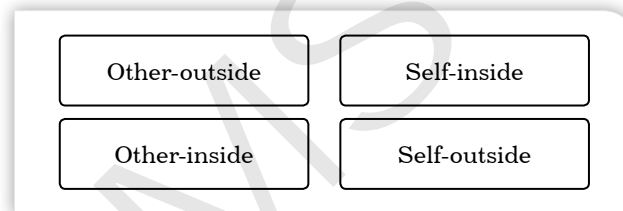


Figure 8.6: Equity Theory

Let us discuss these four comparisons in detail.

- ❑ **Other-outside:** When an employee compares his/her job inputs and outputs with employees in other organisations at the same position, it is known as other outside comparison. For example, comparison made by the marketing executive of organisation A regarding his/her benefits against the benefits received by the marketing executive of organisation B is called other-outside comparison.
- ❑ **Self-inside:** When an employee compares his/her job inputs and outputs with employees inside the organisation at the same position, it is known as self-inside comparison. For example, comparison made by the marketing executive of organisation A regarding his/her benefits against the benefits received by another marketing executive of the same organisation is called self-inside comparison.
- ❑ **Other-inside:** When an employee compares his/her job inputs and outputs with employees outside the organisation at different positions, it is known as other-inside comparison. For example, comparison made by the marketing executive of organisation A regarding his/her benefits against the benefits received by the marketing head of organisation B is called other-inside comparison.
- ❑ **Self-outside:** When an employee compares his/her job inputs and outputs with employees at different positions in the same organisation, it is called self-outside comparison. For example, comparison made by the marketing executive of organisation A regarding

his/her benefits against the benefits received by the marketing head of the same organisation is called self-outside comparison.

According to the equity theory, when an employee observes any disproportion in the outcome-input ratio, he/she gets highly demotivated. In other words, if the employee considers that another employee is getting more recognition and reward as compared to him/her (even if both are putting the same efforts), it would lead to employee dissatisfaction.

According to the equity theory, the rewards (outcomes) should be directly related to the quality and quantity of the employee contribution (inputs) and should not be biased. Only then, the organisation would be able to keep employees satisfied and motivated.



#### SELF ASSESSMENT QUESTIONS

5. Traditional theories explain motivation in terms of the financial factor only. (True/False)
6. Name the two important traditional theories of motivation.
7. Which needs include needs for internal esteem factors, such as self-respect, autonomy, and achievement as well as external esteem factors, such as status, recognition, and attention?
  - a. Social needs
  - b. Esteem needs
  - c. Safety needs
  - d. Self-actualisation needs
8. \_\_\_\_\_ are the factors whose absence can cause dissatisfaction among employees.
9. \_\_\_\_\_ are people who are primarily motivated by intrinsic factors, such as advancement and achievement.
10. Which of the following theory states that multiple needs can act as motivators at the same time and attempt to satisfy higher order needs, which can result in the regression of lower order needs?
  - a. The Existence, Relatedness and Growth (ERG) theory
  - b. The Maslow's need hierarchy theory
  - c. Herzberg's motivation-hygiene theory
  - d. McClelland's theory of needs
11. Individuals with high \_\_\_\_\_ get motivated if they are given challenging tasks because they are creative, hardworking and open minded.
12. \_\_\_\_\_ theory states that individuals compare their job inputs and results with that of others.

## N O T E S



## ACTIVITY

Visit a retail store where employees follow a hectic work schedule. Meet the retail head and ask how they implement various motivational theories at workplace to keep employees motivated.

## 8.4

## TECHNIQUES FOR STIMULATING CREATIVITY

Motivating employees can be challenging for any organisation. This is because different people are motivated differently depending on their current environment. For example, the motivation level of an individual gets influenced differently as compared to that of a group. An individual may always try to fulfil his/her higher level needs to get motivated, which may not be a case for a team. This happens because an individual may be motivated with the fulfilment of personal goals but a team gets motivated with the fulfilment of team goals.

However, motivation of individuals is necessary as a team is formed by individuals. If team members are able to fulfil their higher level needs to get motivated, the team will also be motivated. Thus, it is of utmost importance for every organisation to understand the substantial difference between motivating individuals and motivating a team. Organisations use different techniques to motivate individuals and teams. Let us discuss these techniques in detail.

## 8.4.1 MOTIVATING INDIVIDUALS

A person needs to be individually motivated to motivate others or to remain motivated in a team. While motivating an individual, it is important for an organisation to understand the nature, personality, and needs of the individual. Figure 8.7 shows some commonly used techniques for motivating individuals:

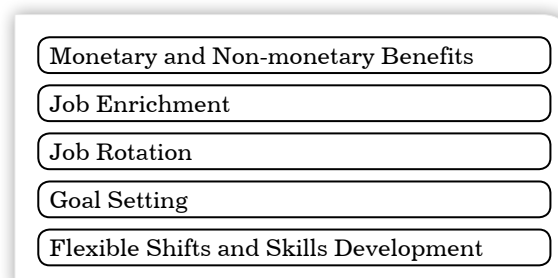


Figure 8.7: Techniques for Motivating Individuals

Let us discuss these techniques in detail.

- ❑ **Monetary and non-monetary benefits:** These are one of the important ways of motivating individuals. Examples of monetary benefits are incentives, commissions, and bonus, while the exam-

ples of non-monetary benefits are appreciation, recognition, gift vouchers, medical claims, etc. It is believed that monetary motivational tools have better results in comparison to non-monetary ones. However, the importance of non-monetary measures cannot be ignored as there are certain needs of employees that cannot be fulfilled by money.

- ❑ **Job enrichment:** It motivates employees by making a job more competitive. Job enrichment allows employees to share some responsibilities of their superiors. When employees are given more or additional responsibilities, they feel themselves as an integral part of the organisation. This further increases their confidence and maintains their interest in work, which, in turn, leads to increased productivity.
- ❑ **Job rotation:** Performing the same kind of work on a daily basis can be monotonous for employees. Job rotation is a technique wherein employees are assigned different roles and responsibilities to retain their interest in the work. Job rotation helps in enhancing the performance of employees by keeping them motivated. In addition, it reduces the monotony of work.
- ❑ **Goal setting:** Employees are given authority to set goals for the organisation. If employee participation is promoted while setting goals, they would feel more committed towards the attainment of goals.
- ❑ **Flexible shifts and skills development:** Employees are given a choice to select the desired shift of work. In this way, they can work as per their comfort and convenience, which, in turn, boost their motivation. Moreover, organisations also focus on improving the skills of employees so that they can perform their work effectively.

#### 8.4.2 MOTIVATING GROUPS

In an organisation, group or team motivation is very important as it leads to the pursuit of organisational objectives. In a team, leaders play a primary role in motivating employees. Thus, it is a responsibility of a leader to assess and understand the motives of team members and identify the techniques that could motivate them. Figure 8.8 shows some common techniques of group motivation:

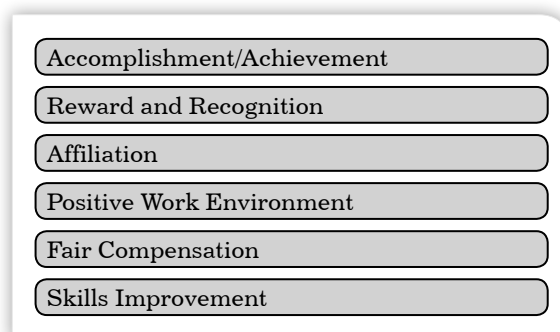


Figure 8.8: Techniques for Motivating Groups

## N O T E S

Let us discuss these techniques in detail.

- ❑ **Accomplishment/achievement:** In a group, people often get motivated with interesting work or an opportunity to achieve something significant. They get motivated in situations that offer personal responsibility and calculated risks. Thus, it is important for leaders to delegate responsibility to team members so that they can feel as a valuable part of the organisation.
- ❑ **Reward and recognition:** Employees in a group want to be appreciated for the role they play in a team. Rewarding employees in a team and recognising their work is one of the important ways to enhance the motivation level of the entire team.
- ❑ **Affiliation:** Some employees get motivated if they have close relationships with other team members. Thus, it is essential for a leader to develop a sense of belongingness among team members and explain them the importance of working collectively and developing a strong bond with team members.
- ❑ **Positive work environment:** Pleasant and less stressful work environment spreads positive energy, which, in turn, boosts employee motivation and satisfaction. Thus, it is primary for an organisation to maintain a congenial work environment.
- ❑ **Fair compensation:** Employees feel highly motivated if they get proper salaries in exchange of the work performed by them. If employees get fair wages, they are less likely to switch to other organisations. Thus, it is important for an organisation to ensure a fair compensation system.
- ❑ **Skills improvement:** Organisations should conduct training programs for enhancing the skills of employees. It would help employees in performing their jobs and duties effectively, which would ultimately lead to an increase in employee motivation.

Apart from the aforementioned tools, the following methods can also be used to stimulate the behaviour of team members:

- ❑ Addressing people in a group by name. It gives them a feeling that they hold a significant place in the team, which ultimately motivates them.
- ❑ Promoting open communication within the team.
- ❑ Treating all team members equally.
- ❑ Sharing useful information with all team members.
- ❑ Paying attention to each team member and accepting their strengths and weaknesses.
- ❑ Providing constructive feedback to team members.
- ❑ Conducting team building activities to promote cordial relationships among team members.

**SELF ASSESSMENT QUESTIONS**

13. \_\_\_\_\_ is a technique wherein employees are assigned different roles and responsibilities to retain their interest in the work.
14. Job enrichment allows employees to share some responsibilities of their superiors. (True/False)

**ACTIVITY**

Suppose you are working as a marketing manager in an insurance organisation and observe that your team members are not satisfied with the work environment, which is hampering their productivity. What steps would you take to motivate your employees and create a healthy work environment?

**8.5 SUMMARY**

- ❑ Motivation can be defined as a psychological process or an internal feeling that helps individuals to attain their personal and professional goals in an efficient manner.
- ❑ Motivation is needed for making productive use of human resources, reducing absenteeism and turnover, maintaining good corporate image, developing friendly relationships, achieving goals, managing higher efficiency, and increasing job satisfaction.
- ❑ Motivational theories are broadly categorised into two types, traditional motivational theories and modern motivational theories.
- ❑ Traditional theories of motivation aim to provide a basic understanding of how to motivate people in an organisation. These theories explain motivation in terms of financial factor only.
- ❑ The levels of needs given by Abraham Maslow in the hierarchy of needs theory include physiological needs, safety needs, social needs, esteem needs and self-actualisation needs.
- ❑ Psychologist Frederick Herzberg proposed the two-factor theory, which is also known as motivation-hygiene theory. According to Herzberg, hygiene factors generate job dissatisfaction as they tend to avoid unpleasantness. On the other hand, motivators generate job satisfaction because of the need for growth.
- ❑ In contrast to traditional theories of motivation, the modern theories of motivation advocate that motivation is a complex psychological process and there are several internal and external variables that affect the motivation level of employees at workplace.
- ❑ The Existence, Relatedness and Growth (ERG) theory by Clayton Alderfer synchronised the five needs identified by Maslow into three needs which are existence, relatedness, and growth.

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- ❑ David McClelland's Need Theory is a motivational model that explains how the needs for achievement, power, and affiliation affect the actions of people.
- ❑ According to the equity theory by J. Stacy Adams, individuals compare their job inputs and results with that of others. If they find inequality, it creates negative or positive feelings among them or decides their level of motivation/demotivation.
- ❑ Motivating employees can be challenging for any organisation. This is because different people are motivated differently depending on their current environment.
- ❑ Some common motivation techniques used in an organisation for motivating individuals include monetary and non-monetary benefits, job enrichment, job rotation, goal setting, flexible shifts, and skills development.
- ❑ Some common motivation techniques used in an organisation for motivating groups include accomplishment/achievement, reward and recognition, affiliation, positive work environment, fair compensation, and skills improvement.



## KEY WORDS

- ❑ **Compensation system:** A mechanism of paying employees in exchange of services rendered or work performed by them.
- ❑ **Hygiene Factors:** Factors whose absence leads to dissatisfaction among employees.
- ❑ **Job rotation:** A process shifting an employee from one job to another within a working group.
- ❑ **Satisfaction:** Fulfilment of one's needs or expectations.
- ❑ **Socio-Psychological factors:** Factors that are related to people's thoughts, feelings, and behaviours.

## 8.6 DESCRIPTIVE QUESTIONS

1. Explain the concept of motivation with the help of an example.
2. Discuss the need for a sound and effective motivation system in an organisation.
3. Differentiate between traditional and modern theories of motivation.
4. Explain the Maslow's need hierarchy theory.
5. Describe David McClelland's need theory.
6. Explain a few motivational techniques that are used in an organisation for group motivation.



## 8.7 ANSWERS AND HINTS

### ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No.	Answers
Meaning of Motivation	1.	Motivation
	2.	W. G. Scott
	3.	False
	4.	Job satisfaction
Theories of Motivation	5.	True
	6.	The Maslow's need hierarchy theory and Herzberg's motivation-hygiene theory are two important traditional theories of motivation.
	7.	b. Esteem needs
	8.	Dissatisfiers/hygiene factors/maintenance factors/extrinsic factors
	9.	Motivation seekers
	10.	a. The Existence, Relatedness and Growth (ERG) theory
	11.	Need for Achievement (NAch)
Techniques for Stimulating Creativity	12.	Equity theory of motivation
	13.	Job rotation
	14.	True

### HINTS FOR DESCRIPTIVE QUESTIONS

1. Motivation can be defined as a psychological process or an internal feeling that helps individuals to attain their personal and professional goals in an efficient manner. Refer to Section **8.4 Meaning of Motivation**.
2. Motivation is needed for making productive use of human resources, lowering absenteeism and turnover, maintaining good corporate image, developing friendly relationships, achieving goals, managing higher efficiency, and increasing job satisfaction. Refer to Section **8.4 Meaning of Motivation**.
3. Traditional motivational theories explain human motivation in terms of financial factor only. On the other hand, modern theories of motivation advocate that there are several internal and external variables that affect motivation of employees at workplace. Refer to Section **8.5 Theories of Motivation**.

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4. The levels of needs given by Abraham Maslow in the hierarchy of needs theory include physiological needs, safety needs, social needs, esteem needs, and self-actualisation needs. Refer to Section 8.5 **Theories of Motivation**.
5. David McClelland's Need Theory is a motivational model that explains how the needs for achievement, power, and affiliation affect the actions of people. Refer to Section 8.5 **Theories of Motivation**.
6. Some common motivation techniques used in an organisation for motivating groups include accomplishment/achievement, reward and recognition, affiliation, positive work environment, fair compensation, and skills improvement. Refer to Section 8.6 **Techniques for Stimulating Creativity**.

## 8.8 SUGGESTED READINGS & REFERENCES

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# 9

## C H A P T E R

### CHANGE MANAGEMENT

#### CONTENTS

- 9.1 Introduction
- 9.2 Meaning of Change Management
  - 9.2.1 Objectives of Change Management
  - 9.2.2 Forces of Change
  - 9.2.3 Resistance to Change
  - 9.2.4 Managing Resistance to Change
    - Self Assessment Questions
    - Activity
- 9.3 Change Management and Organisational Development
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  - Self Assessment Questions
  - Activity
- 9.5 Summary
- 9.6 Descriptive Questions
- 9.7 Answers and Hints
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## INTRODUCTORY CASELET

## CHANGE MANAGEMENT AT ICICI

Formed in 1955, Industrial Credit and Investment Corporation of India (ICICI) offers a wide range of banking products and financial services to its corporate and retail customers. It is a public-limited company that promotes industrial development in India.

In 1996, the CEO of ICICI Narayan Vaghul was replaced by K. V. Kamath. Mr. Kamath's tenure in ICICI gained him the title – the change leader. It was because he made massive changes in the organisational structure and made the company a market-driven financial conglomerate from a traditional development bank.

Mr. Kamath's main aim was to create new divisions for tapping new markets. This required employees to learn new skills and processes. However, the employees were reluctant to accept the change. The change made employees alienated and frustrated. The discontentment further increased when two more sections, namely structured project and infrastructure group, were formed. The employee unrest was successfully managed by Kamath by communicating with employees and providing training for generating additional skills.

At the end of 2000, ICICI again faced employee resistance when it was merged with the Bank of Madura. There were large differences in profiles and salaries in both the banks. The staff of Bank of Madura was unsatisfied and feared that their productivity/targets will increase to match with that of ICICI. They were also not sure about the continuity of rural branches as ICICI was largely urban oriented.

These anxieties of the staff of Bank of Madura were justified as the working culture of ICICI was quite different. The objectives of both the banks also differed. Bank of Madura only concentrated on overall profitability of the bank where as ICICI concentrated on the performance of different departments/product divisions etc.

*We do put people under stress by raising the bar constantly. That is the only way to ensure that performers lead the change process.*  
- **K. V. Kamath, MD & CEO, ICICI, in 1998.**

For managing these resistance and changes, ICICI technologicaly upgraded the processes of Bank of Madura as per ICICI standards. In addition, the cultural integration program was also developed. ICICI also formed a uniform compensation system with the help of Hewitt Associates. ICICI also conducted an employee behavioural study for managing the fears and apprehensions of employees. Proper communication and adequate training helped the employees of Bank of Madura to adapt easily.

## LEARNING OBJECTIVES

After studying this chapter, you will be able to:

- Discuss the concept of change management
- Relate change management and organisational development
- Discuss the forces and resistance to change
- Elaborate on the role of leaders in change management

## 9.1 INTRODUCTION

Change is inevitable in an organisation especially in today's ever-changing, complex business environment. In an organisation, change is all about reviewing and modifying business processes, functions, management structures, working methods, and so on. In other words, organisational change can be defined as a process wherein an organisation optimises its performance in order to achieve its ideal state. In an organisation, change can take place as a response to advancement in technology, rise in competition, consumer demand, modifications in political or economic framework, etc. The main objectives of any organisation behind introducing change are to minimise costs, improve organisational performance, and overcome competition.

Change can be beneficial for an organisation if managed well on time. Change management is a process of dealing with change. It is all about helping people in an organisation to make personal transitions resulting in the implementation of change. Managing change requires a thorough understanding of driving and restraining forces of change. Driving forces positively affect the desired change, while restraining forces are the impediments to the desired change.

To manage change effectively, it is important for a manager or leader to first define the need for change. For example, an organisation operating in a saturated domestic market may consider the expansion of business at the international level. Secondly, the manager/leader should make alterations in management structures and processes as per the defined change. These alterations can be reduction of layers in the management hierarchy, merging of business units, decreasing employee strength, etc. Lastly, the manager/leader should check whether the implemented change is able to provide the desired results. In case of deviations, corrective actions should be taken. In this chapter, you will study about change and change management in detail.

## 9.2 MEANING OF CHANGE MANAGEMENT

With the advent of globalisation, technological advancement, and uncertainty of the business environment, change is of paramount importance for the growth of an organisation in the long run. For example, an organisation wishes to expand the scale of its production. This would

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not be possible until new machines and technologies are introduced in the organisation. In such a case, technological change is a must for the organisation in order to grow. Apart from this, change may take place in an organisation for many reasons like sudden changes in consumer preferences, rise in competition, economic fluctuations, etc. In this section, let us study about change and change management in detail.

A change can be defined as an alteration or modification for making something work better. Different philosophers have defined the change differently. The following are some definitions of change:

In the words of **Alvin Toffler**, *Change is not merely necessary to life. It is life*

According to **John Naisbett**, *As a society, we have been moving from old to the new. In addition, we are still in motion. Caught between eras, we experience turbulence.* –

According to **Stephen P. Robbins**, *Change is concerned with making things different. Things must be different because they change constantly.*

In an organisational context, change refers to the adjustments or modifications in processes, functions, strategies, or structure. An organisation needs to adapt to change from time to time to meet ever-changing customer requirements, find out new ways of delivering customer service, introduce new products, explore new markets, etc. Apart from this, adopting to change helps organisations in:

- ❑ Coping with financial crisis.
- ❑ Bridging performance gaps.
- ❑ Utilising its strengths and understanding its weaknesses
- ❑ Predicting possible threats and using untapped opportunities.

In an organisation, change can take place in various areas, such as:

- ❑ Mission, vision, and business strategy to achieve long-term goals.
- ❑ Technology to achieve efficiency and reduce costs.
- ❑ Human resource to maintain an efficient pool of employees.
- ❑ Organisational structure to alter the authority-responsibility relationship.
- ❑ Organisational culture to alter the organisation's styles, values, and beliefs.

Change is unavoidable in any organisation. However, if it is not managed well, it may have serious impact on the organisation's performance. Therefore, it is essential for an organisation to continuously find out ways to manage change. An efficient organisation not only manages current changes but also looks forward to deal with any future contin-

gency. Change management can be defined as a systematic approach to defining and implementing procedures for dealing with change in an organisation. As per **David P. Baker**, *Change management is the process, tools and techniques to manage the people side of the change process, to achieve the required outcomes and realise the change effectively within the individual, change agent, inner team and wider system.*

The change management process is a sequence of steps that a change management team needs to follow in order to adapt to change. Figure 9.1 shows the steps involved in the change management process:

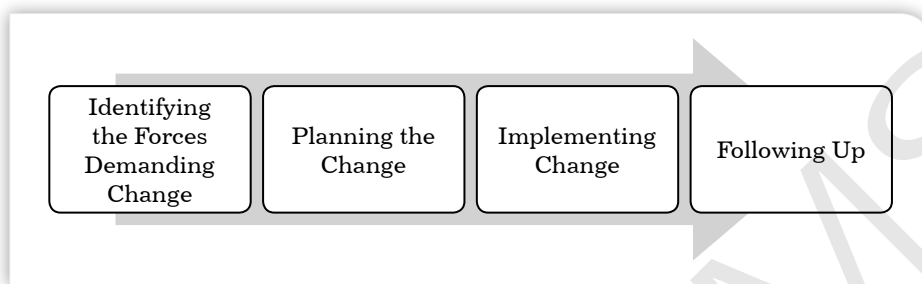


Figure 9.1: Change Management Process

Let us discuss these steps in detail.

1. **Identifying the forces demanding change:** It involves identifying the situations, problems or places where change is required in an organisation.
2. **Planning change:** In this step, a change plan is designed for managing change. It involves finding out the ways on how the change would be imbibed in the organisation and by whom.
3. **Implementing change:** In this step, change is executed in the organisation. All the employees are trained or educated about the change.
4. **Following up:** It is the last step in which it is ensured that the implemented change provides the desired result. In case of deviation, remedial measures are taken.

### 9.2.1 OBJECTIVES OF CHANGE MANAGEMENT

Change can be predictable or unpredictable, complex or simple, and organisation-wide or limited to a particular department. Irrespective of its type, it should be managed by organisations well on time to improve organisational efficiency. The following are the main objectives of change management:

- ❑ To ensure that the desired results of a change are achieved.
- ❑ To sustain organisational efficiency and productivity.
- ❑ To assure that all employees in the organisation are informed about the change to be implemented.

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- ❑ To establish a creative and flexible culture.
- ❑ To reduce issues associated with implementing change.
- ❑ To evaluate the exact cost associated with change implementation.

### 9.2.2 FORCES OF CHANGE

The forces of change are basically the causes or reasons of change. In an organisation, change can take place because of various internal and external causes. These causes are explained as follows:

- ❑ **Internal Forces:** These are the forces that exist within an organisation. These forces are under the control of the organisation. For example, change in leadership, implementation of new technology, decline in profitability, changes in employee profile and union actions, etc.
- ❑ **External Forces:** These are the forces that are present outside the organisation. These are beyond the control of the organisation. For example, government policies, changes in the economy, competition, cost of raw materials, technological advancement, scarcity of labour, social pressures, legal requirements, etc.

### 9.2.3 RESISTANCE TO CHANGE

Although major changes are happening more frequently in organisations, human nature remains much the same. People always resist change because of many reasons. Employees resist change because of fears and risks associated with it. For instance, employees who are enjoying powerful positions in the organisation might have fear of losing those powers after a change is implemented. Fears make employees psychologically uncomfortable with change. According to **James Hunt**, *Resistance is not an indication that something is wrong with what you are trying to change. It is an indication that something is happening.* There can be different types of sources that trigger resistance to change, such as:

- ❑ **Rational resistance:** This type of resistance occurs when people do not have the proper knowledge or information about the change happening in the organisation. This type of resistance decreases when people are provided with relevant information.
- ❑ **Emotional resistance:** This is related to psychological problems of fear, anxiety, suspicion, and insecurity. This type of resistance is tackled by convincing employees about the positive outcomes of change.

Resistance can occur because of various reasons, which are as follows:

- ❑ **Lack of capabilities:** Employees may doubt that their capabilities for contributing to the needed change are not sufficient. Thus, they resist change.



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- ❑ **Lack of incentives:** Employees feel that the change will not offer them enough incentives. They feel they have to work more on the same pay.
- ❑ **Fear of technological upgradation:** This is the fear of unemployment among people. They feel that machines can replace them.
- ❑ **Fear of salary reduction:** It is a fear of getting less pay after change. If the change is done for better style of working, it might result in reducing working hours, which would result in pay reduction.
- ❑ **Uselessness of skills:** Sometimes people fear that their present skills would get obsolete at any time and they further fear that they will not be able to master new skills. This fear becomes one of the major reasons for people to resist change.
- ❑ **Habit/comfort:** Some employees just want to continue the way they are at present and any kind of change is not accepted by them. For instance, an employee does not want to shift to the other branch of the same organisation because of comfort.
- ❑ **Ego-defensiveness:** Sometimes people's ego becomes a reason for resistance wherein a superior discards the ideas of subordinates.

#### 9.2.4 MANAGING RESISTANCE TO CHANGE

People are always reluctant to embrace change. They may resist change by showing various symptoms, such as poor performance, disinterest towards the work, increased absenteeism, shutdowns and strikes. No organisation can implement change successfully without the consent of employees. Therefore, it is important for organisations to manage resistance to change. Organisations use various ways to manage resistance to change. Some of them are as follows:

- ❑ **Facilitation:** Managers/leaders should facilitate change by working with employees and helping them to adapt to change easily.
- ❑ **Education:** Managers/leaders should make employees aware of the reasons for change, benefits of the change to be implemented, skills required to implement the change, etc.
- ❑ **Involvement:** Managers/ leaders should involve employees in planning and implementing change by asking for their valuable suggestions and ideas.
- ❑ **Negotiation:** Managers/leaders should always have a discussion with employees for reaching a mutual agreement to change.
- ❑ **Training programs:** People should be well trained to implement the change. Regular meetings, communication, teambuilding, and coaching should be arranged so that employees can accept the change easily.

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## EXHIBIT

**Change Implementation at Unilever**

Among the Fast Moving Consumer Goods (FMCG) organisations, Hindustan Unilever (HUL) is the oldest and largest organisation. In India, HUL is one of the active corporate citizen and local player in India. The brands of HUL spread and touch the lives of various consumer categories in India. The vision of HUL involves continuously innovating technologies to increase conservation in its operations. It aims to reduce the water consumption by use of advanced technologies. The mission of HUL includes meeting everyday needs for nutrition, hygiene and personal care with brands that help people feel, look good, and get more out of life. Its main aim is to add vitality to life.

Hindustan Unilever Research Centre (HURC), Bangalore was set up in 1967 in *Mumbai* for innovation in products and processes. It is a large industrial private sector research laboratory in India. The main objectives of HURC are as follows:

- ❑ Applying new technology for developing products and processes
- ❑ Ensuring that existing products are produced in an efficient and economic manner
- ❑ Finding the latest advances in science and technologies

HURC followed the matrix organisational structure. The teams work together on projects that include basic research, product application, and product deployment in the market. The following figure shows the project area matrix organisational structure of HURC:

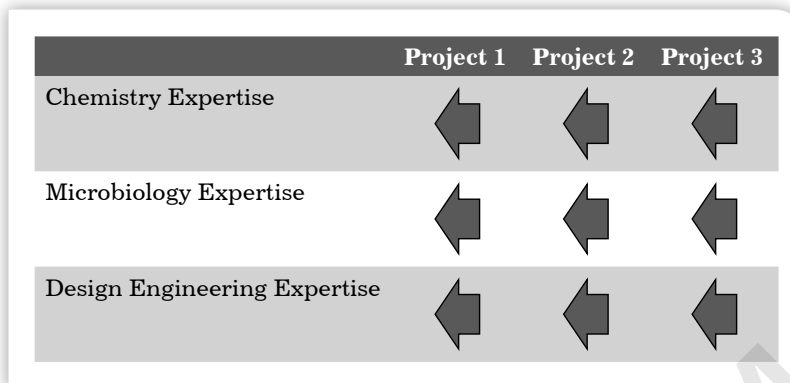
	Project 1	Project 2	Project 3
Chemistry Expertise	↑	↑	↑
Microbiology Expertise	↑	↑	↑
Design Engineering Expertise	↑	↑	↑

Project Area Matrix Organisational Structure

After following this structure, HURC observed that the reporting mechanism under this structure was unsuccessful.

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The main reason was non-alignment of HURC's purpose and role. Thus, significant changes were made in the organisational structure. The figure shows the new functional matrix organisational structure of HURC:



New Functional Matrix Organisational Structure

The reporting mechanisms were changed. The project managers were given less authorities to supervise the cross disciplinary aspects of the project. The disciplinary area managers were responsible for the respective domains.

For managing the complex change programs, HURC did exceptionally well in this change. This resulted in delivering innovations and functional excellence. Apart from this, changes were made in human resource policies also. Employees were given ready access to books, journals and e-resources for ease research and development work. The recognition was provided to employees by publishing their research papers in national and international research journals. Safety norms were enforced in the centre to convert it in to the zero injury zone.



#### SELF ASSESSMENT QUESTIONS

1. \_\_\_\_\_ can be defined as a systematic approach to defining and implementing procedures for dealing with change in an organisation.
2. What is the last step of the change management process?
3. External forces are present within the organisation. (True/False)
4. Which type of resistance is tackled by convincing employees about the positive outcomes of change?
5. An organisation's styles, values, and beliefs are a part of \_\_\_\_\_.
6. What are the symptoms of resisting change?

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## ACTIVITY

Visit an organisation in your vicinity and hold a discussion with managers on the changes they have implemented in the organisation in the last one year. Learn about the change management approaches followed in the organisation.

## 9.3

**CHANGE MANAGEMENT AND ORGANISATIONAL DEVELOPMENT**

The two terms **change management** and **organisational development** are always confused with each other. However, there are certain similarities and differences between two. Before understanding the similarities and differences, let us define these concepts.

- ❑ **Change management:** It is a systematic process of dealing with change.
- ❑ **Organisational development:** It is an approach to enhance organisational effectiveness using behavioural science knowledge.



## DEFINITION

According to **Beckhard, 1969**, *Organization development is an effort that is planned at organization level and starts from the top of the organizational hierarchy in order to enhance the organization's effectiveness through planned interventions in organizational processes, using knowledge of behavioral sciences.*

According to **Bennis, 1969**, *Organization development is an answer to change, a complex educational strategy that is intended to modify the organization's norms, values, attitudes, and structure, so that it may adapt more easily to the new technologies, to the new market challenges, as well as to the nowadays stunning rate at which change takes place.*

According to **Burke and Hornstein, 1972**, *Organization development is a process of planned change – change of the culture of an organization from one that avoids the examination of social processes (especially in the area of decision making, planning and communication) to one that institutionalizes and gives it legitimacy.*

**SIMILARITIES BETWEEN CHANGE MANAGEMENT AND ORGANISATIONAL DEVELOPMENT**

- ❑ Both change management and organisational development lay emphasis on improving the performance and efficiency of an organisation.
- ❑ Both involve a sequential order of planned actions and a set of processes.
- ❑ Both rely on effective leadership to be implemented successfully.

### DIFFERENCES BETWEEN CHANGE MANAGEMENT AND ORGANISATIONAL DEVELOPMENT

- ❑ Change management can take place at individual and group levels, whereas organisational development focuses on the forces that impact the organisation as a whole.
- ❑ Successful change transforms the way an organisation thinks and works. On the other hand, organisational development helps in stimulating a change within the organisation and managing it effectively.
- ❑ Change management focuses on cost, quality, and stringent schedules, while organisational development lays emphasis on behavioural science values, human potential, participation, and transfer of skills.
- ❑ Change management specifically deals with the issues rose in an organisation, while organisational development involves detailed diagnosis to find out the underlying causes of the presenting problem.



#### SELF ASSESSMENT QUESTIONS

7. An approach to enhance organisational effectiveness using behavioural science knowledge is called \_\_\_\_\_.
8. Both change management and organisational development lay emphasis on improving the performance and efficiency of an organisation. (True/False)
9. Organisational development focuses only on individual level. (True/ False)



#### ACTIVITY

Do you think that organisational development and change management goes together in the organisation? Explain with the help of real-life examples.

## 9.4

### ROLE OF LEADERS IN CHANGE MANAGEMENT

Change management nowadays has become one of the most prominent areas of concern for an organisation. In an organisation, change takes place at three levels, namely individual, group, and organisational. At every level, it is the responsibility of leaders to manage people and encourage them to work towards the change to be implemented by the organisation. Change cannot be implemented without leadership efforts. As per **Nadler & Nadler**, *Leaders are known as Champions of*

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*Change- as it is the top management of any organization who keeps the process of change going on and maintain the operational reliability of the organization.*

In an organisation, people always like to follow the path of superiors who inspire them. Thus, it is important for leaders to become role models and to be willing to accept the change first. Then only, leaders would be able to inspire others to embrace change. Leaders should create a sense of urgency of change and show their commitment towards implementing the change successfully.

Change is a planned activity that requires priorities, timelines, and responsibilities. Thus, it is important for leaders to delegate a certain degree of decision-making authority to employees so that the change can be implemented successfully. Leaders can manage change effectively if they have a clear vision as well as a set of skills and capabilities. As per Ajaiyi, a change leader should have the following capabilities:

- ❑ Superhuman determination to make change happen
- ❑ Persistence
- ❑ Stamina
- ❑ Sufficient mandate that stems from personal change
- ❑ First rate intelligence

Leaders play a vital role in transforming a traditional organisation into a learning organisation. They are called the promoter of change or change agent for modern organisations, which is depicted in Figure 9.2:

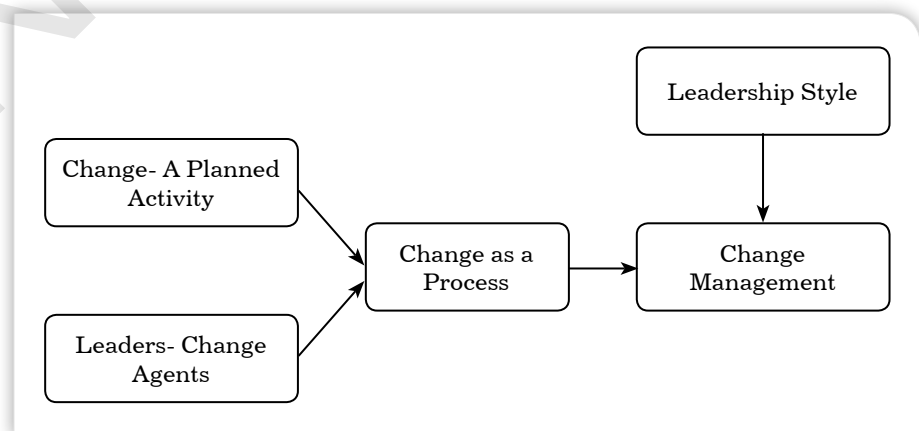


Figure 9.2: Leaders as Change Agents

Figure 9.2 represents that change is a planned activity and leaders are the change agents. The change process is a responsibility of both leaders and employees. Leaders should adopt an appropriate leadership

style for attracting teams and adapting them to change. The leadership style should be customised as per the behaviour of employees in a particular organisation. The success of change management depends on the way the leader leads its team and stimulates them towards the change process.



#### SELF ASSESSMENT QUESTIONS

10. Change takes place at three levels, namely individual, group, and \_\_\_\_\_.
11. Change cannot be implemented without leadership efforts. (True/ False)
12. Who are change agents?
13. The leadership style should be customised as per the behaviour of employees in a particular organisation. (True/ False)
14. Leaders are also called as \_\_\_\_\_ of change.



#### ACTIVITY

Visit an organisation in your area and note down the role of leaders/managers in the organisation. Also, find out how managers as leaders can act as change agents.

### 9.5 SUMMARY

- ❑ Change management can be defined as an approach to achieve the desired state of an organisation.
- ❑ The process of change management includes various steps, such as identifying the forces demanding change, planning the change, implementing change and following up.
- ❑ Forces of change necessitate change in an organisation. There can be internal and external forces of change in an organisation.
- ❑ Resistance occurs due to various reasons, such as lack of capabilities, lack of incentives, and fear of technological upgradation and salary reduction.
- ❑ Change can be managed by facilitation, education, involvement, negotiation and training programs.
- ❑ Organisational development and change management are inter-related where organisational development is a planned changed effort for improving the efficiency of the organisation.
- ❑ Leaders play a major role in change management as they inspire others for change.

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## KEY WORDS

- ❑ **Authority-responsibility relationship:** A superior-subordinate relationship where a superior gives authority and the subordinate accepts responsibility.
- ❑ **Change agent:** A factor that acts as a catalyst to change initiatives of an organisation.
- ❑ **Ego-defensiveness:** A situation when a superior may discard a good idea from subordinates because of his/ her ego.
- ❑ **Organisational development:** An overall strategy that focuses on improving an organisation's overall effectiveness often through the use of planned change efforts.
- ❑ **Resistance:** An act of opposing something.

## 9.6 DESCRIPTIVE QUESTIONS

1. Explain the concept of change management.
2. What are the objectives of change management?
3. What are the different reasons for resistance to change?
4. Explain similarities and differences between change management and organisational development?
5. Explain the role of leaders in change management.
6. Explain the process of change management.

## 9.7 ANSWERS AND HINTS

### ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No.	Answers
Meaning of Change Management	1.	Change management
	2.	Following up is the last step of change management process.
	3.	False
	4.	Emotional resistance
	5.	Organisational culture
	6.	Symptoms of resisting change are poor performance, disinterest towards the work, increased absenteeism, shutdowns and strikes.



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Topic	Q. No.	Answers
Change Management and Organisational Development	7.	Organisational development
	8.	True
	9.	True
Role of Leaders in Change Management	10.	Organisational
	11.	True
	12.	Leaders
	13.	True
	14.	Promoter

**HINTS FOR DESCRIPTIVE QUESTIONS**

1. Change management can be defined as a systematic approach to defining and implementing procedures for dealing with change in an organisation. Refer to Section **9.4 Meaning of Change Management**.
2. The main objectives of any organisation behind introducing change are to minimise costs, improve organisational performance, overcome competition, etc. Refer to Section **9.4 Meaning of Change Management**.
3. Resistance occur because of lack of capabilities, lack of incentives, fear of technological upgradation, and fear of salary reduction. Refer to Section **9.4 Meaning of Change Management**.
4. Organisational development and change management are interrelated as well as different concepts. Refer to Section **9.5 Change management and Organisational Development**.
5. Leaders should create a sense of urgency of change and show their commitment towards implementing the change successfully. Refer to Section **9.6 Role of Leaders in Change Management**.
6. The process of change management includes identifying forces demanding change, planning the change, implementing change and following up. Refer to Section **9.4 Meaning of Change Management**.

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# 10

## CHAPTER

### MANAGEMENT INFORMATION SYSTEM

#### CONTENTS

10.1	Introduction
10.2	Information Technology and Management
10.2.1	Data and Information
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10.2.4	Advantages and Limitations of MIS
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## INTRODUCTORY CASELET

**AIRLINES MANAGEMENT  
INFORMATION SYSTEM (AMIS)**

Airlines industry is supposed to be one of the early adopters of MIS, as they have to incur heavy costs on human resources. The reason for developing this system was cost cutting and improving efficiency. AMIS serves for all management activities. The system efficiently performs versatile functions, such as finance and accounting, reservation and e-ticketing, inventory management, flight operation and engineering, personnel and payroll and marketing statistics. The system works individually on these functions along with an integrated approach.

AMIS is a web-based browser that supports all operating systems, such as Linux, Netware, Windows 95/98/ME, Windows XP/2000/NT. It is an easy-to-use system. The system involves four levels of security to ensure restriction on unauthorised usage. Many controls have also been implemented that can identify fake tickets or passengers without tickets. It can check random booking, overstaffing, under staffing, earned or unearned revenue, daily transactions, expense records and many such functions. It can also be easily customised as required. The cost of such system ranges from 20,000 to 100,000 in rupees.

**LEARNING OBJECTIVES**

After studying this chapter, you would be able to:

- Explain the concept of management information system
- Discuss the importance of data and information
- Elaborate on the importance of expert system
- Explain the functioning decision support system
- Describe the significance of group decision support system

## 10.1 INTRODUCTION

Organisations need a large amount of information to make effective business decisions on a daily basis. Earlier, information in organisations was collected manually. However, the manual procedures of data collection and storage led to unnecessary wastage of time, money, and resources. Sometimes information lost its importance, value, and usability because of the late delivery of information. With the advent of advanced technologies, it has become easier for organisations to use the right information in an organised way. Management Information System (MIS) is a computerised application that provides information to managers in organisations to make effective decision making.

MIS provides managers with tools for effectively running their departments. Its main components involve software that helps in decision making; data resources such as databases; hardware resources of a system; and people management and project management applications. MIS enables managers to have better control over organisational resources; thereby improving organisational efficiency. In addition, it helps managers to determine the type and amount of information required for performing various managerial functions, such as planning, organising, controlling, and directing.

An organisation can use three main types of MIS depending on its requirements. These are Decision Support System (DSS), Group Decision Support System (GDSS) and expert systems. In this chapter, you will study about the concept of MIS, its importance in an organisation, and its different types and their functions.

## 10.2 INFORMATION TECHNOLOGY AND MANAGEMENT

Information technology is one of the most important inventions of the 20<sup>th</sup> century. It has touched every single aspect of human life in a very short span of time. For example, in the education sector, information technology has led to the emergence of various new concepts like e-learning, virtual classes, and distance education. Similarly, in-

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formation technology has also made communication easier and faster. Today, people need not wait for the next morning for newspapers to access any news. With the help of the Internet, people can have real-time access of news and events taking place around them.

Just like communication and education, the field of management has also been largely influenced by information technology. Information technology has changed the way organisations perform their work. The major contribution of information technology to management is the introduction of Management Information System (MIS). In this section, let us study about MIS and its importance in an organisation in detail.

To understand the concept of MIS, it is important to understand the two terms **management** and **information system** separately. Management is a process of planning, organising, directing, and controlling resources to achieve organisational goals and objectives. On the other hand, an information system is a set of interrelated components that collects, stores, processes, generates and disseminates information for effective business decision making. MIS collects data from various resources, processes it, and transforms the data into meaningful and useful information.

MIS is a computer-based, integrated system that supports managers to perform various management functions, such as planning, organising, directing, and controlling. According to **Schwartz**, *MIS is the system of people, equipment, procedures, documents and communication that collects, validates, operates on, transforms, stores, retrieves and presents data for use in planning, budgeting, accounting, controlling and other management processes*. MIS provides data of various organisational functions like sales, production, marketing, finance, etc. and converts this data into meaningful information. This information is used by managers to make business decisions effectively; thereby increasing the overall profitability of the organisation.

According to **Coleman and Ritley**, *An MIS*

1. *applies to all management levels;*
2. *is linked to an organizational subsystem;*
3. *functions to measure performance, monitor progress, evaluate alternatives or provide knowledge for change or collective action; and*
4. *is flexible both internally and externally.*

From the discussion so far, it can be said that data and information are crucial parts of MIS. Thus, before studying in detail about MIS, let us first study the importance of data and information in an organisation.

### 10.2.1 DATA AND INFORMATION

You must have come across people conducting customer surveys at your doorstep, in markets, malls, etc. What do you think can be the

possible reason for such surveys? Why do organisations conduct these surveys? The main aim of organisations is to collect data in order to take a particular decision. Without data, it would be difficult for organisations to take appropriate decisions. For instance, before launching a new product, an organisation needs to collect data on product demand, customer preferences, availability of substitute goods, etc. In case data is not collected beforehand, the newly launched product of the organisation may lead to failure for many reasons, such as less demand and inability to meet customer needs.

Data is a collection of facts, figures, objects, symbols, and events that have been gathered from different sources. There are two types of data collected by organisations, namely primary data and secondary data. Primary data is collected from a first-hand experience and is not used in the past. This type of data is collected from various sources, such as surveys, questionnaires, interviews, observations, research work, etc. On the other hand, secondary data is the data that has been used in the past. The sources of secondary data include organisation's health and safety records, mission and vision statements, magazines, executive summaries, government reports, press releases, etc. Although data is a valuable asset for every organisation, it does not serve any purpose until it is analysed or processed to get the desired results. When data is processed and converted into a form that has a specific meaning, it becomes **information**. For example, questionnaires collected on a product or service from customers is data. When this data is analysed to prepare a market report, the resulting report is information.

Thus, it can be said that information is a well-processed form of data that has a specific meaning and purpose. In other words, information can also be referred to as filtered data that facilitates effective decision making. Here, it should be noted that the main role of MIS is to provide accurate information to managers so that they can make effective decisions. Information can be meaningful and useful if it has certain characteristics, which are listed in Figure 10.1:

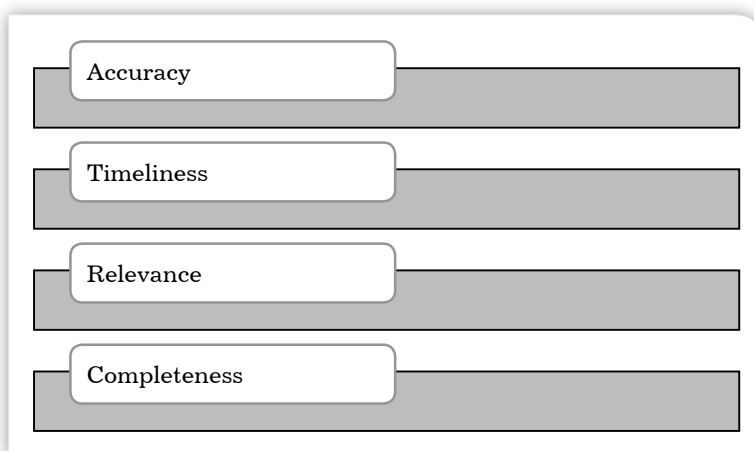


Figure 10.1: Characteristics of Information

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Let us discuss these characteristics in detail.

- ❑ **Accuracy:** Information should be error-free, correct, and based on facts. Inaccurate information not only turns useless, but also leads to ineffective decision making. If an error is spotted in information, it would not be used by managers in making decisions. This would lead to the wastage of time, efforts, and cost. In a nutshell, precise and clear information that is ready to be used is called accurate information.
- ❑ **Timeliness:** Information should be available when it is required. In today's dynamic business world, managers need to take decisions frequently. For example, the marketing manager of an organisation needs to constantly select new promotional tools. In such a case, information is available after the decision has been taken, it would be useless. Thus, it can be said that the value of information is inversely proportional to time.
- ❑ **Relevance:** Information is said to be relevant if it is appropriate to the respective domain of decision making. For example, a manager needs to formulate marketing strategies. In this case, the collected information should be related to current market trends and needs and preferences of customers. Irrelevant information distracts managers from taking correct and effective decisions.
- ❑ **Completeness:** Information is said to be complete if it is fully interpretable. If information does not make a complete sense, it may not support the decision making process of an organisation.

### 10.2.2 CHARACTERISTICS OF MIS

MIS nowadays has become an important tool for decision making in organisations. Figure 10.2 lists the important characteristics of MIS:

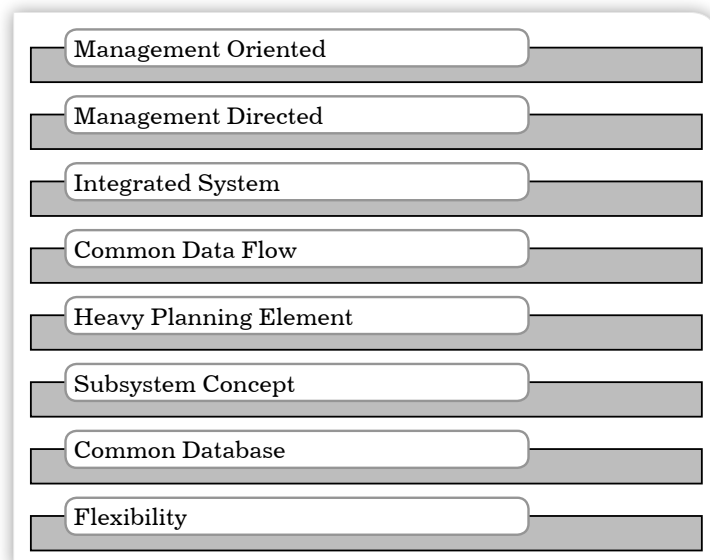


Figure 10.2: Characteristics of MIS



Let us now discuss these characteristics in detail.

- ❑ **Management oriented:** MIS focuses on providing the right information to the right manager at the right time. This information is used by managers to make timely business decisions.
- ❑ **Management directed:** MIS enables the top management of an organisation to make effective decisions by providing adequate information; thereby increasing operational efficiency. Thus, top management invests a huge amount on the implementation of MIS.
- ❑ **Integrated system:** MIS is called an integrated system as it is a combination of various management operations and activities. Information provided by MIS can be accessed by all departments of the organisation. This helps the departments to take decisions in a coordinated manner. For example, in a manufacturing organisation, the production department needs to decide the appropriate level of production. For this, the production department needs information on the current sales and inventory of the organisation. This information can be easily accessed by the production department using MIS.
- ❑ **Common data flow:** MIS collects the data from the original source and the data gathered, stored, retrieved, and captured only once. This common data flow in MIS helps in minimising data processing and maximising output generation.
- ❑ **Heavy planning element:** Successful implementation of MIS requires careful planning and design. MIS is planned and designed in a way that there is proper integration between various elements, such as hardware, software, database, information processing, and feedback.
- ❑ **Subsystem concept:** MIS consists of various other systems that interact and communicate with each other in order to support decision making. These systems collectively perform specialised functions to make MIS work as a system. In order to maintain the uniformity and transparency in the system, there is a hierarchy of subsystems. This hierarchy clearly explains the relationship between different subsystems and their relation with the main system.
- ❑ **Common database:** As MIS consists of many subsystems, a common database is required for each subsystem. This common subsystem acts as an integrator between these subsystems and serves the information needs of different levels of management.
- ❑ **Flexibility:** MIS is a flexible system that can be easily modified in a short span of time as per changes in the business environment. For example, consumer demand is subject to change from time to time. The relevant information on consumer demand can also be updated in MIS in order to make accurate decisions.

## N O T E S

**10.2.3 COMPONENTS OF MIS**

MIS is composed of various elements, such as people, technology, and data, to produce meaningful information. The following are some important components of MIS:

- ❑ **People:** No system can be operated and maintained without people. Similarly, MIS cannot serve its purpose of providing management information if it is not operated well by people. The people component of MIS can be divided into two categories, namely **end users** and **information system specialists**. End users are ones who use the information provided by MIS. Examples of end users are market researchers, production managers, sales personnel, etc. On the other hand, information system specialists are ones who have expertise in developing and operating MIS. Software developers, system analysts and system operators are information system specialists.
- ❑ **Hardware:** It includes all kind of physical devices and material used to operate MIS. Central Processing Unit (CPU), keyboard, mouse, desktop, printers, etc. are the examples of hardware.
- ❑ **Software:** It involves a series of instructions to operate and control hardware. There can be two types of software, namely programs and procedures. Programs are in-built in computers; for example, operating systems and application software. On the other hand, procedures are defined by an organisation as per its requirements; for example, information distribution procedures and data entry procedures.
- ❑ **Data:** It is unorganised and raw form of facts and observations collected from primary and secondary sources (as discussed earlier). All the collected data is stored in MIS in a way that it can be properly accessed by users.
- ❑ **Network:** It is a group of two or more computers that are interconnected for the purpose of sharing information; for example, the Internet, intranet, and extranet. There are two types of resources included in MIS network, namely communication media and network support. Communication media comprises coaxial cables, cellular and satellite technology, whereas network support includes the integration of all hardware, software, and technologies to operate MIS efficiently.
- ❑ **Information:** To make efficient decisions, the collected data is processed, analysed, and presented in the form of graphs and figures in order to convert it into meaningful information.

**10.2.4 ADVANTAGES AND LIMITATIONS OF MIS**

So far you have understood the importance of MIS in decision making. The following are the advantages of MIS:

- ❑ MIS converts a large amount of data in precise information that is easily interpretable.
- ❑ MIS promotes the decentralisation of authority by providing access to information at all levels of management.

- ❑ It facilitates coordination between departments as information can be accessed by any department anytime.
- ❑ MIS generates various types of business reports that help the organisation to identify its strengths and weaknesses.

In spite of various benefits, MIS also has certain limitations, which are as follows:

- ❑ High maintenance cost.
- ❑ Integration of departments can cause accountability problems.
- ❑ Resistance to sharing of interdepartmental information.
- ❑ Inability of MIS to provide creative responses in critical situations.
- ❑ Technical failures due to heavy load of data.



#### EXHIBIT

##### **Airlines Management Information System (AMIS)**

The airlines industry is supposed to be one of the early adopters of MIS, as they have to incur heavy costs on human resources. The reason for developing this system was cost cutting and improving efficiency. AMIS serves all management activities. The system efficiently performs versatile functions, such as finance and accounting, reservation and e-ticketing, inventory management, flight operation and engineering, personnel and payroll and marketing statistics. The system works individually on these functions along with an integrated approach.

AMIS is a Web-based browser that supports all operating systems such as Linux, Netware, Windows 95/98/ME, Windows XP/2000/NT. It is an easy-to-use system. The system involves four levels of security to ensure restriction on unauthorised usage. Many controls have also been implemented that can identify fake-ticket or passengers without ticket. It can check random booking, overstaffing, under staffing, earned or unearned revenue, daily transactions, expense records and many such functions. It can also be easily customised as required.



#### SELF ASSESSMENT QUESTIONS

1. In order to understand the concept of MIS, it is necessary to understand two terms \_\_\_\_\_ and \_\_\_\_\_ separately.
2. Information is a collection of facts, figures, objects, symbols, and events that have been gathered from different sources. (True/False)

## N O T E S

3. Information that is error-free, correct, and based on facts is called:
  - a. Accurate information
  - b. Timely information
  - c. Relevant information
  - d. Complete information
4. When data is processed and converted into a form that has a specific meaning, it becomes \_\_\_\_\_.



## ACTIVITY

Using the Internet, find out a real-life example of an organisation where information technology has automated its management operations.

### 10.3 EXPERT SYSTEMS

In the words of **Jackson**, *An expert system is a computer program that represents and reasons with knowledge of some specialist subject with a view to solving problems or giving advice.* In simple words, an expert system can be defined as a computerised system that is used to solve expert-level problems. An expert system performs its functions using its two main components, which are:

- ❑ **Knowledge base:** It is a collection of facts, figures, and observations (raw data) that is converted into meaningful information.
- ❑ **Reasoning mechanism:** It involves mathematical algorithms or formulas that are applied for data analysis and interpretation.

The first commercial expert system DEC's XCON was introduced in 1981. However, experts systems gained popularity in the 1990s when organisations were shifting their focus on the implementation of software for managing various business activities. Figure 10.3 shows the structure of an expert system:

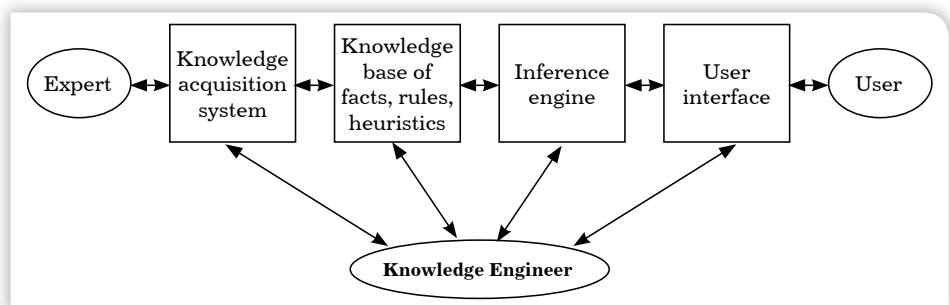


Figure 10.3: Structure of an Expert System

(Source: <http://www.cs.bham.ac.uk/~jxb/IAI/w9.pdf>)

An expert system nowadays can be implemented in various sectors, such as:

- ❑ Aerospace
- ❑ Airlines/civil aviation
- ❑ Banking and finance
- ❑ Criminology
- ❑ Education
- ❑ Food and beverages
- ❑ Health care
- ❑ Personnel management
- ❑ Tax planning
- ❑ Manufacturing, etc.

An expert system is helpful in performing various functions in an organisation. The following are some typical functions of an expert system:

- ❑ An expert system is able to interpret complicated data like sonar data and geophysical measurements.
- ❑ It can diagnose malfunctioning or faults in medical, engineering, or various other complicated equipment.
- ❑ It is also helpful in the configuration of complex objects such as computer systems and chemical compounds.
- ❑ It is able to make predictions such as weather forecasts and likelihood of rise and fall in share prices and exchange rates.

An expert system is quite different from a traditional computer system. The following points distinguish an expert system from a traditional computer system:

- ❑ An expert system uses a reasoning mechanism, while a traditional computer system requires human knowledge. For example, to determine the parking space of a mall, an expert system may take into consideration the number of visitors to the mall in a specific time period, location of the mall, average size of vehicles, etc. and perform calculations. However, a traditional computer system may not perform complex calculations and requires data to perform.
- ❑ Along with reasoning, an expert system also takes into consideration certain assumptions in order to provide solutions to problems. For example, an expert system may assume the same theory for solving the queuing problems for all types of industries. On the contrary, a traditional computer system is based on facts and not on assumptions.
- ❑ An expert system is able to provide an explanation and justification of every solution to the problem given by it. However, this may not be the case with a traditional computer system.

## N O T E S

Although expert systems facilitate effective decision making in organisations, there are certain limitations of these systems. These limitations are given as follows:

- ❑ Expert systems are not generally able to manage highly sophisticated sensory inputs as they work in the domain of extracted, cognitive, logical thinking process.
- ❑ These systems cannot handle multi-dimensional problems as they are based on a narrow range of codified domain.
- ❑ These systems are unable to respond well to the situation outside their range of expertise.
- ❑ These systems lack in self-awareness and self-analysis tools; thus always need human support.

**SELF ASSESSMENT QUESTIONS**

5. What are the two components of an expert system?
6. An expert system uses a \_\_\_\_\_, while a traditional computer system requires \_\_\_\_\_.
7. An expert system is able to interpret complicated data like sonar data and geophysical measurements. (True/False)

**ACTIVITY**

Find out the functions of an expert system in the chemical industry.

**10.4 DECISION SUPPORT SYSTEM**

We make a number of decisions in our day-to-day life. However, the art of making good decision depends largely on relevant and appropriate information, based on which we make our choices. In other words, the quality of decisions depends on the sufficiency of the available information and number of alternatives available at the time of decision making. One way to make informed decisions is to use decision support systems (DSS).

Decision Support System (DSS) is a computer-based system that aids the decision-making process of an organisation. It helps managers to make decisions under situations when there is uncertainty about the possible outcomes of those decisions or when decisions are based on intuition. For example, decisions related to organisational operations, industrial processes, investment portfolios, and efficiency of manufacturing plants.

DSS provides intelligent access to relevant knowledge and enables managers to make an optimal choice. Proper application of DSS in-

creases the efficiency, productivity, and effectiveness of an organisation. The functioning of DSS has been divided into three phases, which are explained as follows:

1. **Intelligence phase:** In this phase, managers identify the problem for which a decision is to be taken.
2. **Design phase:** This is the second phase wherein all possible solutions to the problem are identified.
3. **Choice phase:** This is the last stage in which the most appropriate solution is selected.

DSS is made of various components, which are explained as follows:

- ❑ **User interface:** It is a medium between a user and the system that allows the user to communicate and interact with the system in order to support decision making.
- ❑ **Database:** It is a collection of historical and current records that have been stored in DSS. The database can be accessed anywhere and anytime by anybody in the organisation.
- ❑ **Network:** It is a collection of computers, servers, terminals and other such components. A network allows the sharing of resources among different users of DSS.
- ❑ **Software:** It is a collection of various mathematical and analytical tools that helps in retrieving information from the database and interpreting it to make sound business decisions.



#### EXHIBIT

##### DSS in Business

Equifax Inc. is a consumer credit reporting agency that collects and integrates information on over 800 million individual consumers and more than 88 million businesses worldwide. Equifax provides DSS and supporting database to a number of companies, which helps these companies to make more efficient and profitable business decisions. Equifax provides its users different national database, analysis tools and mapping software that helps them in defining and analysing their opportunities in a particular area.

The DSS, used by Equifax, integrates customer information with their existing demographic and geographic information. For example, it offers information about spending pattern of consumers for more than 400 products and services in various categories. Moreover, it offers five-years projections, depicting the impact of dynamic economic and demographic conditions.

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This integration of information and analysis of reports helps decision makers to answer questions related to:

- ❑ Customer segmentation and targeting
- ❑ Market and site evaluation
- ❑ Business-to-business marketing
- ❑ Product distribution strategy
- ❑ Competitive analysis

Consider the following questions (as examples), which can be answered with the efficient use of DSS:

- ❑ Who are my target customers and where are they located?
- ❑ Which segment responded positively to my marketing efforts?
- ❑ How can I examine and describe my market potential?
- ❑ If I add a new location to my current business, how would it affect my existing locations?
- ❑ How can I estimate demand for my product/service?
- ❑ What impact an acquisition/ merger would have on my business?
- ❑ How competition is impacting my business?

#### 10.4.1 TYPES OF DSSS

In an organisation, there can be different types of DSSs used. Figure 10.4 shows some common types of DSSs:

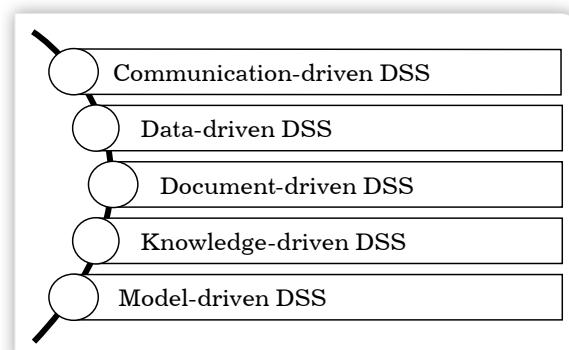


Figure 10.4: Types of DSS

Let us discuss these types of DSS in detail.

- ❑ **Communication-driven DSS:** The communication-driven support system is designed to help internal teams in an organisation using Web or client-server technology. Examples of communication-driven DSS are chats, instant messaging software, and online collaboration.
- ❑ **Data-driven DSS:** Data-driven DSS helps in filtering relevant information from a database or data warehouse so that it can be



easily used by managers. Data-driven DSS is deployed through mainframe systems, client-server links, or Web.

- ❑ **Document-driven DSS:** Document-driven DSS is implemented in organisations by using Web or client server technology. This type of DSS is used by the organisation where user groups are comparatively large. The main purpose of a DSS is to search Web pages and find documents on a specific set of keywords or search terms.
- ❑ **Knowledge-driven DSS:** This type of DSS is mainly used to get management advice or select products or services. The deployment technology used to set up knowledge-driven DSS can be client/server systems, Web, or software running on PCs.
- ❑ **Model-driven DSS:** Model-driven DSS is a complex decision support system as it helps in evaluating various decisions considered by the management and selecting the best one. This system is implemented using client-server technology or web and software and hardware in the stand-alone computer systems.

#### 10.4.2 APPLICATION AND BENEFITS OF DSS

In an organisation, DSS can provide information on comparative sales figures, projected revenue figures, etc. DSS can be used in various sectors in order to facilitate efficient decision making. The following are the applications of DSS in different sectors:

- ❑ **Medical:** In the medical sector, clinical DSS are used for medical diagnosis.
- ❑ **Banks:** In banks, DSS helps loan officers to verify the credit of a loan applicant.
- ❑ **Business and management:** DSS enables managers to make optimal allocation of resources and make quick decisions related to various business decisions.
- ❑ **Agriculture:** One major application of DSS is in agriculture production and marketing for sustainable development.
- ❑ **Railways:** DSS provides information on worn-out or defective rails and requirements for equipment testing.

From the discussion so far, you must have understood that DSS plays an important role in the decision-making process of an organisation. Apart from this, the following are some benefits of DSS:

- ❑ Facilitates quick decision making; thereby increasing organisational efficiency.
- ❑ Increases organisational control and improves interpersonal communication.
- ❑ Promotes learning by speeding up problem solving in the organisation.
- ❑ Automates managerial processes and enables the organisation to achieve a competitive advantage.

## N O T E S



## SELF ASSESSMENT QUESTIONS

8. In which of the following phase, all the possible solutions to the problem are identified:
  - a. Intelligence phase
  - b. Design phase
  - c. Choice phase
  - d. User interface
9. Which type of decision support system is designed to help internal teams in an organisation using Web or client-server technology?
10. Knowledge-driven DSS is a complex decision support system as it helps in evaluating various decisions considered by the management and selecting the best one. (True/False)
11. \_\_\_\_\_ is a collection of various mathematical and analytical tools that helps in retrieving information from the database.



## ACTIVITY

Visit a manufacturing organisation in your area. Discuss with the production manager of the organisation about the type of DSS being used in the organisation.

## 10.5 GROUP DECISION SUPPORT SYSTEM

In an organisation, there are many decisions that require collaboration and participation of multiple employees. Take an example of a consumer durable product manufacturing company, which is losing its market share to the competitors. The company needs to take decision on whether to keep selling its existing range of products or focusing only on its best-selling products or adding new products. Making such decisions often require input from different departments within the organisation. For this, individuals from different departments need to collaborate, share information and discuss decisions that need to be made. In such cases, meeting face-to-face is not always possible or practical. To deal with such situations, technologies can be used that may help in sharing same information to everyone in the group so that they can reach to a better decision. Here comes the role of Group Decision Support System (GDSS), which supports groups in decision making by combining DSS and groupware technologies.

Group Decision Support System (GDSS) can be defined as an information system that is designed to support decisions made by groups in an organisation. The main aim of GDSS is to facilitate group commu-

nication and foster learning. A GDSS is helpful in situations involving meeting scheduling and documentation; brainstorming; group discussions; visioning; planning; team building; etc. Moreover, it enables users or group members to solve complex problems, formulate detailed plans and proposals, manage conflicts, and prioritise activities in an effective manner.

GDSS helps group members to not only make better decisions but also improve tasks in improved manner. Take example of Groupware, a software, used to support groups in coordinating and keeping track of ongoing projects and tasks. Groupware extends collaboration in a group and assists the group members in completing tasks. GDSS is designed in such a way that they take input from multiple users interacting concurrently with the systems to reach at a decision as a group.

### 10.5.1 COMPONENTS OF GDSS

GDSS performs operations through its various components. Figure 10.5 lists the components of GDSS:

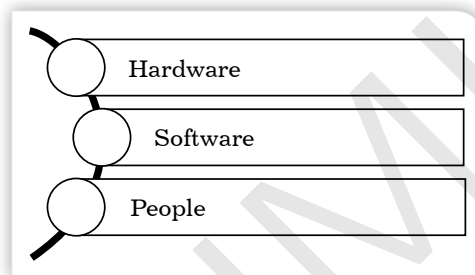


Figure 10.5: Components of GDSS

Let us discuss these components in detail.

- ❑ **Hardware:** It involves physical devices of a computer system, such as monitors, servers, electronic display boards, keyboards, and audio-visual equipment. It also includes a conference facility for group discussion and teamwork.
- ❑ **Software:** It includes a number of tools and techniques to operate GDSS. These tools are electronic questionnaires, brainstorming tools, idea organisers, etc. The application of these tools helps in planning, organising ideas, collecting information, defining priorities, documenting meeting proceedings, taking decisions, and so on.
- ❑ **People:** It involves group members, a trained facilitator who helps in the proceedings of meetings, and an expert staff to operate and control hardware and software.

### 10.5.2 MODEL OF GDSS

As mentioned earlier, GDSS supports groups in an organisation in taking complex business decisions. The GDSS model enables groups

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in planning, generating, organising, and assessing ideas for problem solving. Figure 10.6 shows the GDSS model:

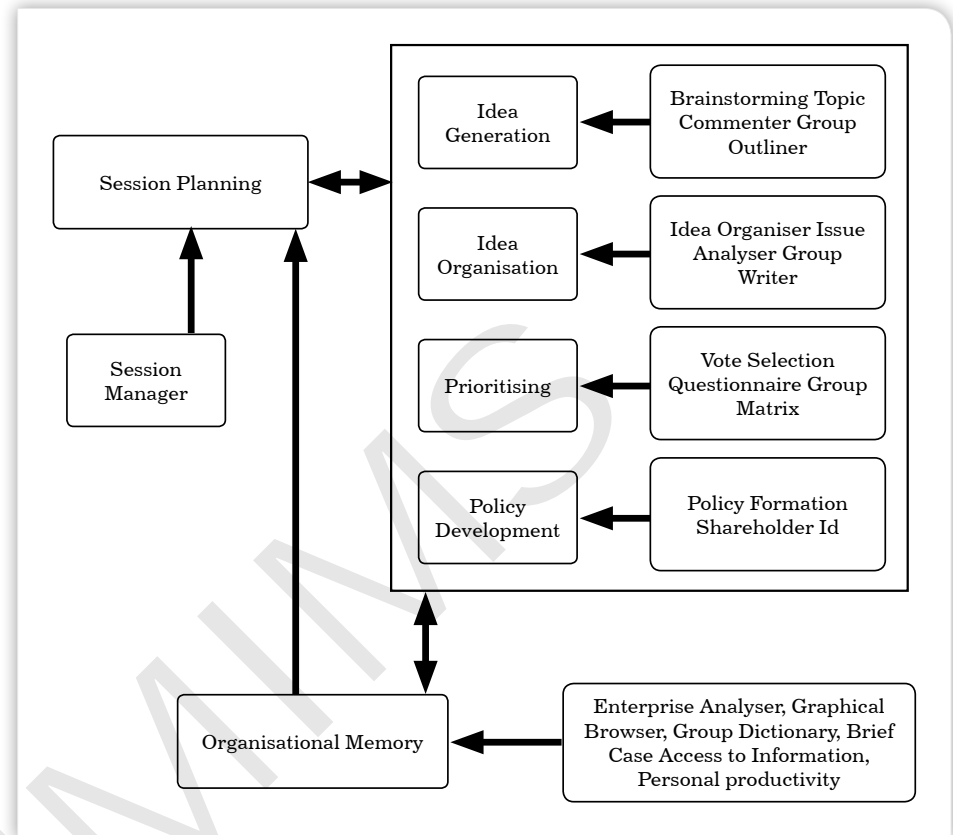


Figure 10.6: Functioning of GDSS Model

Let us discuss the functioning of GDSS.

- ❑ **Electronic questionnaire:** It is used by group members for planning meetings, and determining crucial issues and related information for decision making. By using electronic questionnaires, groups can acquire the required information for finding optimal solutions and making effective decisions.
- ❑ **Electronic brainstorming tools:** Group members use these tools for providing suggestions, which help the management in arriving at certain decisions. These tools are used to solve problems at organisational levels.
- ❑ **Idea organisers:** In meetings, individuals offer various ideas for problem solving. Idea organisers help in classifying idea providers so that it can be easier to consult the concerned personnel for further clarifications.
- ❑ **Prioritisation tools:** These tools are used for prioritising ideas provided by group members during brainstorming. For setting priorities, various methods are used, such as voting and ranking.

- ❑ **Stakeholders' identification and analysis tools:** These tools are used to understand the impact of emerging ideas on the functioning of an organisation.
- ❑ **Policy creation tools:** These tools provide a platform to arrive at an agreement on the basis of the policy statement established by the organisation.
- ❑ **Group dictionaries:** These are used for recording all important terms associated with the proposed project for future references.

### 10.5.3 ADVANTAGES OF GDSS

As discussed earlier, GDSS supports decisions by members of a group in an organisation. The following are the advantages of GDSS:

- ❑ GDSS helps managers to take better decisions even after a large organisational hierarchy.
- ❑ It facilitates group communication and eliminates the influence of a single decision maker.
- ❑ GDSS provides a facility of videoconferencing, which enables members to hold meetings at a common place from different geographical locations.
- ❑ It is user-friendly and can be accessed by people from a non-technical background.

### 10.5.4 LIMITATIONS OF GDSS

Besides having various advantages, the system also has certain disadvantages:

- ❑ The implementation of GDSS requires huge cost, time, and efforts.
- ❑ The chances of misuse or leakage of information are quite high as there are multiple users of GDSS.
- ❑ The risk of technical faults always remains there.
- ❑ GDSS is not helpful in situations that require one-to-many communication; for instance, a leader taking lectures in a group.



#### SELF ASSESSMENT QUESTIONS

12. \_\_\_\_\_ can be defined as an information system that is designed to support decisions made by groups.
13. Which component of GDSS comprises physical devices of a computer system, such as monitors, servers, electronic display boards, keyboards, and audio-visual equipment?
  - a. Software
  - b. Hardware
  - c. People
  - d. Network
14. The implementation of GDSS requires huge cost, time, and efforts. (True/False)

## N O T E S



## ACTIVITY

Do you think organisations should use GDSS in spite it is quite expensive. Explain by giving some real-life benefits of GDSS.

**10.6 SUMMARY**

- ❑ MIS is a computer system that allows the management of an organisation to make effective business decisions by providing timely and accurate information.
- ❑ MIS is composed of various elements, such as people, technology, and data, to produce meaningful information.
- ❑ The collection of facts and figures gathered from different sources is referred to as data. When data is processed, it becomes information.
- ❑ An expert system is a computer-based system that used to solve expert-level problems. It functions through its two important components namely knowledge base and reasoning mechanism.
- ❑ DSS is a computerised system that helps managers in the decision-making process. It is divided into three phases namely intelligence phase, design phase, and choice phase.
- ❑ There are different types of DSS available such as communication-driven, data-driven, document-driven, knowledge-driven and model-driven DSSs.
- ❑ GDSS is an information system designed to aid management in the process of group decision making.



## KEY WORDS

- ❑ **Client server technology:** A form of technology where one computer program makes a service request from another. The program that makes request is referred to as client and the other program from which the request is made referred to as server.
- ❑ **Intuition:** An ability of anticipating situations without using any rational processing.
- ❑ **Investment portfolio:** A pool of investments or a collection of assets owned by an organisation with a motive to earn profits.
- ❑ **Substitute goods:** Goods that can replace each other whenever required due to change in conditions; for example, tea and coffee.

## 10.7 DESCRIPTIVE QUESTIONS

1. What is MIS and what are its different characteristics?
2. Differentiate between data and information.
3. What do you understand by expert systems?
4. What is DSS? Explain its various types?
5. Explain GDSS along with its components?
6. Explain the advantages and limitations of GDSS.

## 10.8 ANSWERS AND HINTS

### ANSWERS FOR SELF ASSESSMENT QUESTIONS

Topic	Q. No.	Answers
Information Technology and Management	1.	Management and information system
	2.	False
	3.	a. Accurate information
	4.	Information
Expert Systems	5.	Knowledge base, reasoning mechanism
	6.	Reasoning mechanism, human knowledge
	7.	True
Decision Support System	8.	b. Design phase
	9.	communication-driven DSS
	10.	False
Group Decision Support System	11.	Software
	12.	GDSS
	13.	b. Hardware
	14.	True

### HINTS FOR DESCRIPTIVE QUESTIONS

1. Management information system is an integrated, computer-based application that aids business decision making. Refer to Section 10.4 Information Technology and Management.

## N O T E S

2. Data is a collection of raw facts and figures from various resources. When data is processed, it becomes meaningful information. Refer to Section **10.4 Information Technology and Management**.
3. Expert systems are computerised systems that are used to solve expert problems. Refer to Section **10.5 Expert Systems**.
4. DSS is a computerised system that aids the decision-making process. Refer to Section **10.6 Decision Support System**.
5. GDSS is computerised system that helps in group decision making. Refer to Section **10.7 Group Decision Support System**.
6. The main aim of GDSS is to facilitate group decision making in organisations. However, there are certain limitations of GDSS, such as high implementation cost. Refer to Section **10.7 Group Decision Support System**.

## 10.9 SUGGESTED READINGS & REFERENCES

### SUGGESTED READING

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# 11

## C H A P T E R

### CASE STUDIES

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Case Study 1	Management Experiment at New United Motor Manufacturing Inc.
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## N O T E S

## CASE STUDY 1

**MANAGEMENT EXPERIMENT AT NEW UNITED MOTOR MANUFACTURING INC.**

*This Case Study discusses the importance of effective management in organisations. It is with respect to Chapter 1 of the book.*

General Motors (GM) is an American, multinational, automobile manufacturer. The brands of vehicles produced by the organisation include Chevrolet, Buick, GMC, Cadillac, Opel, Holden, etc. In 1982, GM was suffering from heavy losses due to tense labour management relations. As a result, GM had to close its California facility. To recover from the fall out, GM established the first joint venture with a Japanese organisation Toyota Motors in 1983. The new venture was named as New United Motor Manufacturing Inc. (NUMMI).

To increase its productivity, NUMMI adopted the time and motion studies technique for improving work practices. As a result, the organisation was able to bring quality and increase productivity. The plant established by NUMMI was engaged in producing vehicles for both the organisations Toyota and GM. The aim of NUMMI's management was to:

- ❑ Improve overall quality.
- ❑ Encourage workers' participation in the designing and controlling of their work activities.
- ❑ Create a formal system in the organisation to foster learning.

The reason behind the success of NUMMI was the adoption of new management practices and trends. Some of the important practices adopted by NUMMI are:

- ❑ Kaizen to attain perfection and make efforts for continuous improvement.
- ❑ Just-in-time for reducing overall costs.
- ❑ Focus on human resources.
- ❑ Employee empowerment to provide quick solutions to problems.
- ❑ Effective team culture and mutual trust to gain control and coordination.

These practices led to management-worker cooperation, which formed the basis for union relations in NUMMI. In addition, lay-offs were restricted to severe economic situations like recession. The success of NUMMI encouraged GM to implement the same management practices to its other plants too.

**CASE STUDY 1****N O T E S****QUESTIONS**

1. Justify the application of scientific management techniques at NUMMI. What other techniques of Scientific Management can be used to increase productivity?

**(Hint:** Time and motion study, a technique of scientific management implemented at NUMMI)

2. Do you think NUMMI is a perfect example of modern management? Why and why not?

**(Hints:** Yes, modern management practices helped in the improvement of overall efficiency and minimisation of costs by eliminating waste practices.)

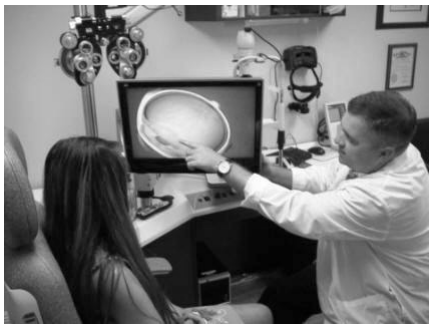
NMIMS

## CASE STUDY 2

## N O T E S

### IMPLEMENTATION OF SIX SIGMA IN LANSING OPHTHALMOLOGY

*This Case Study discusses the significance and application of Six Sigma methodology in an organisation. It is with respect to Chapter 1 of the book.*



Lansing Ophthalmology is an eye care centre with 14 physicians and 7 optometrists. In addition, it has 144 employees who provide clinical and administrative support to patients. The centre serves around 100,000 patients, of whom 75,000 are regular visitors of all ages. The clinicians are responsible for conducting eye examination, performing surgery, and dispensing eyewear.

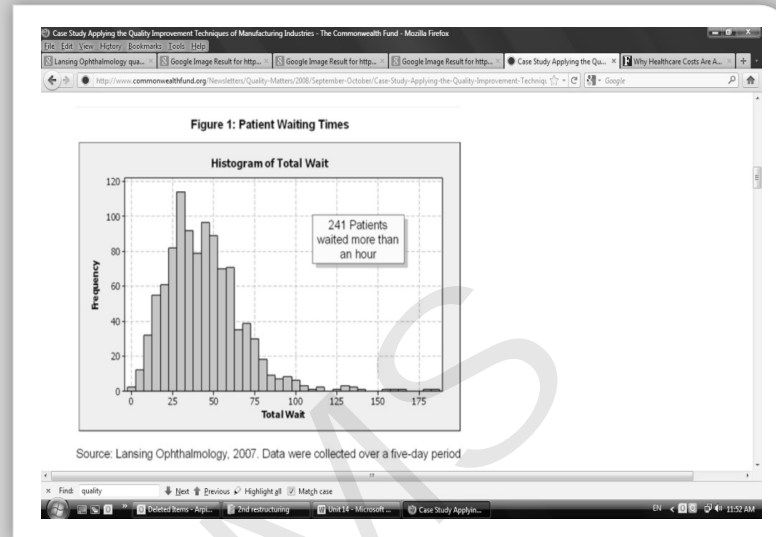
In early 2007, Lansing Ophthalmology volunteered to take part in a pilot project sponsored by Automotive Action Industry Group, which demonstrated the value of applying Six Sigma techniques to the healthcare industry.

The management at Lansing Ophthalmology hoped to use the quality improvement methodology to streamline the flow of patients throughout their clinics. It analysed that patients were waiting on an average for 90 minutes to see a doctor. The long waiting time led to the formation of clusters outside physician's workplace, which put added pressure on physicians. The follow-

## N O T E S

## CASE STUDY 2

ing figure shows the long patient waiting time recorded over a five-day period in 2007:



Patient Waiting Time

(Source: Lansing Ophthalmology, 2007, Data were collected over a five-day period)

Lansing Ophthalmology had tried all possible solutions to eliminate the problem. According to **Charles Dobis**, the executive director at Lansing Ophthalmology, “People would try to schedule their way out of it. That never worked,” For example, doctors tried to schedule difficult cases in the afternoon and the simpler ones in the early hours. However, the strategy started creating problems for the technicians who had to handle all difficult cases at once. According to **Teresa Prior**, the clinical director at Lansing Ophthalmology, “It might have worked if [the doctors] were in a solo practice or worked with one other person. But they were a spoke within a wheel.”

By implementing Six Sigma, Lansing Ophthalmology initially collected a sample patient flow data for a week in order to evaluate that how long it takes a patient to get through the entire process. For this, a separate time sheet was kept for each patient wherein the time taken in between various processes, such as registering the patient, gathering history, and providing services, was noted. The chart also measured how long patients waited between these processes.

The staff collected the data of 1,227 patients by using the defined time sheet, attached to each patient chart during the data collection period. The consultants analysed the time for each process that was entered into the time sheet.

## CASE STUDY 2

## N O T E S

The data displayed that 241 patients (19.6 per cent) had spent more than one hour waiting during their visit. As there were around 149 exam combinations required by patients, almost 50 per cent followed one of the five set patterns shown in the following figure:

<b>Pattern 1</b> Check-in Podium (a routing station) History EPIC exam (refraction, or measurement of near-or far-sightedness) Dilation Doctor's exam Check out	242 patients, Average time: 79 minutes (45 spent waiting)
<b>Pattern 2</b> Check-in Podium History Doctor's exam Check-out	159 patients, Average time: 58 minutes (37 spent waiting)
<b>Pattern 3</b> Check-in Podium History Dilation Doctor's exam Check-out	90 patients, Average time: 68 minutes (45 spent waiting)
<b>Pattern 4</b> Podium History Doctor's exam Check out	64 patients, Average time: 55 minutes (35 spent waiting)
<b>Pattern 5</b> Check-in Podium History EPIC exam Dilation Doctor's exam Test Check out	45 patients, Average time: 94 minutes (53 spent waiting)

Top Five Traffic Flow Patterns  
 (Source: Lansing Ophthalmology, 2007)

The consultants found high variability in the time taken in between and during various procedures. The time taken by a doctor to see the number of patients per hour ranged from less than 2-6 hours. However, it was decided that alterations cannot be made for such variations. This is because some cases were too serious and required thoughtful supervision and consideration.

There was also great variability in the time taken by technicians to gather patient history and perform refractions. Extracting patient history took around 5-16 minutes, while EPIC exams (a refraction

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## CASE STUDY 2

to measure the patient's near-sightedness or far-sightedness, if any) took about 5-21 minutes, depending on the technician. This variation was making it difficult to precede a patient to the doctor at the apt time.

Another variation problem was patient arrival times. The data showed that some patients were up to an hour early while others were up to 45 minutes late. As a clinic practicing a policy of seeing patients as they arrived, it put tremendous downstream strain on staff in predicting patient flow and managing their activities accordingly.

To reduce variation in the patient-flow process, the practice laid emphasis on:

- ❑ Introducing a policy of seeing patients at the appointed time. If patients arrive early, the staff should tell them that the clinic has to see patients who were scheduled before them. On the other hand, if patients come after 20 minutes, their visit should be re-approved by their physician. This makes it easier to calculate what tests and preparations are required and at what time.
- ❑ The centre should focus on training technicians to reduce the variation in process times by producing standardised practices for each.
- ❑ The clinic should establish a queuing system to limit the number of patients inflowing the doctors' waiting area. It substantially reduced the stress that doctors felt upon seeing patients waiting outside their door.
- ❑ The scheduling system should be restructured to expect the time patients required for completing vision tests before seeing their doctors. In this way, they are allotted two appointment times: one for meeting with technicians to get the tests done and the second for the time at which they could see the doctor. Depending on the type of tests, the arrival time should be scheduled as little as 5 minutes and as much as 60 minutes before the appointment with doctors.



## CASE STUDY 2

## N O T E S



### QUESTIONS

1. What is the central issue in the case study?

**(Hint:** The central issue in the case study is identifying and eliminating the causes of variation in the flow of patient at the centre. The case study focuses on how Six Sigma helped Lansing Ophthalmology to deal with this problem.)

2. Based on the case study, discuss how the data collection process focused on three key issues related to technician time, waiting time, and clustering.

**(Hint:** By implementing Six Sigma, Lansing Ophthalmology initially collected a sample patient flow data for a week in order to evaluate that how long it takes a patient to get through the entire process. The staff collected the data of 1,227 patients by using the defined time sheet, attached to each patient chart during the data collection period. The consultants found high variability in the time taken in between and during various procedures. The data showed that there was a major variation in the time taken by technicians to gather patient history and perform refractions. This variation was making it difficult to precede a patient to the doctor at the apt time. Another variation problem was with patient arrival times. An appropriate data collection process helped Lansing Ophthalmology in reducing these variations associated with technician time, waiting times, and bunching in an effective manner.)

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## CASE STUDY 3

## NOTES

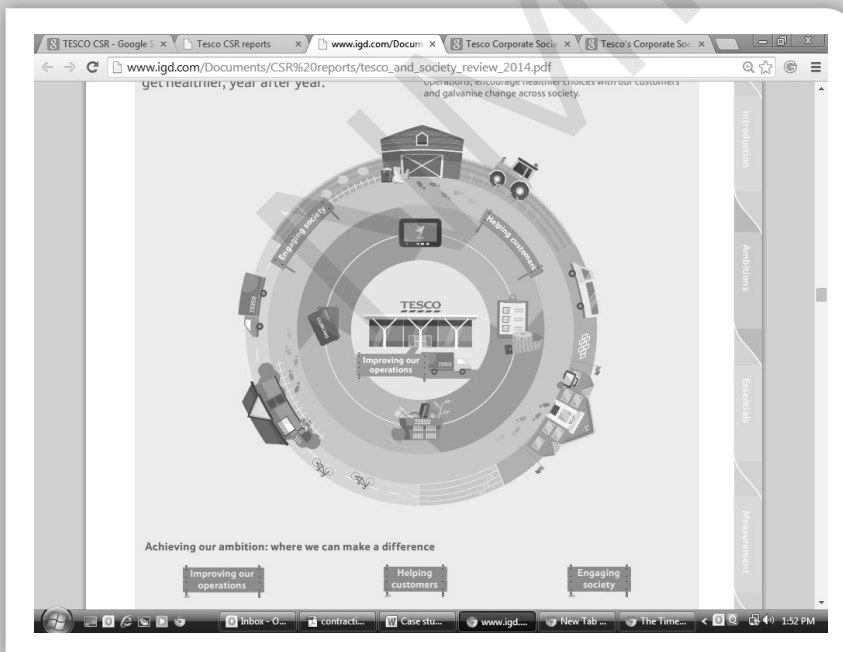
### TESCO'S CORPORATE SOCIAL RESPONSIBILITY

*This Case Study discusses about CSR initiatives of organisations. It is with respect to Chapter 2 of the book.*

Headquartered in England, Tesco is the world's second largest, multinational grocery merchandise retailer. The success story of Tesco is attributed to the addition of Corporate Social Responsibility (CSR) element in its corporate structure. Tesco's major CSR initiatives include recycling, use of organics, use of energy, and water and community initiative.

**Tesco's Group Chief Executive, Terry Leahy, in 'Tesco CSR Review 2001-02' said, Corporate Social Responsibility makes sound business sense. The key to our approach is our integrated business system, where environmental and social performance is managed alongside financial performance. This means we have a year-on-year program of focused action to drive improvement.**

Tesco's CSR issues are discussed regularly in board meetings. Moreover, the organisation publishes its '**Corporate Social Responsibility Review**,' which outlines its approach, implementation, and policies of the previous and coming years.



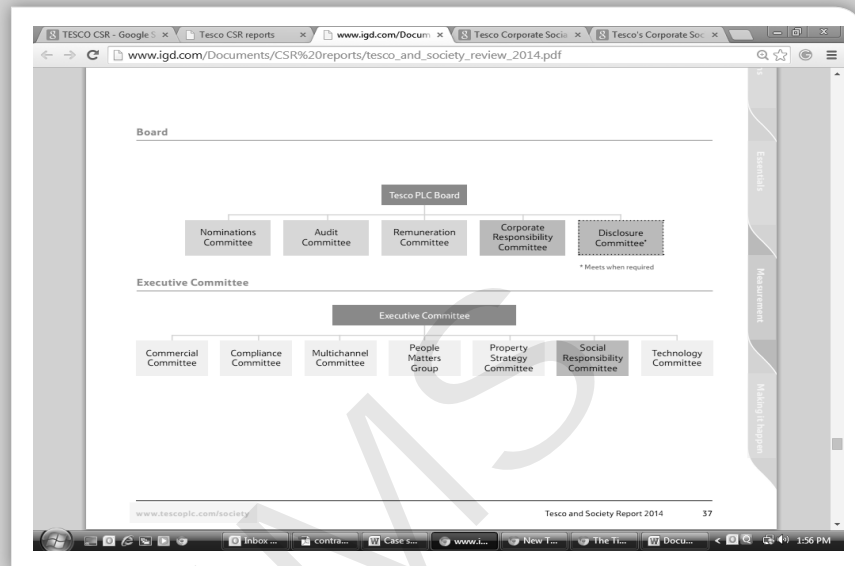
(Source: [http://www.igd.com/Documents/CSR%20reports/tesco\\_and\\_society\\_review\\_2014.pdf](http://www.igd.com/Documents/CSR%20reports/tesco_and_society_review_2014.pdf))

Tesco focuses on energy efficiency and introduces new technologies for producing renewable energy from time to time. The organisation has a vision of becoming zero-carbon business by 2050.

## NOTES

## CASE STUDY 3

The following figure depicts the organisational structure of Tesco and its corporate responsibility committee:



(Source: [http://www.igd.com/Documents/CSR%20reports/tesco\\_and\\_society\\_review\\_2014.pdf](http://www.igd.com/Documents/CSR%20reports/tesco_and_society_review_2014.pdf))

## TESCO'S CSR INITIATIVES

- ❑ Tesco helps customers by making green products more affordable and attractive.
- ❑ Tesco's stores are built to the highest energy efficiency standards. For instance, fan motors are replaced with energy efficient motors that use 80% less energy.
- ❑ Tesco has appointed energy champions who monitor energy use, perform complete energy audits, and provide staff with information related to energy awareness.
- ❑ Tesco used sustainable packaging by increasing the recycled content of packaging.
- ❑ Partnerships with government bodies are developed for tackling climate change.

Tesco also accepts waste electrical and electronic equipment (WEE) products from consumers free of charge.

**CASE STUDY 3****N O T E S****QUESTIONS**

1. “CSR helps organisations to achieve a competitive edge in the market.” Share your views on the statement.

(**Hint:** Energy efficiency, a CSR initiative of TESCO, is a step to reduce the amount of energy required to produce products and services. This initiative increased the market image of TESCO; thereby, enabling the organisation to win over its competitors.)

2. Do you think that it is ethical for an enterprise to seek a competitive edge in the market by indulging in CSR activities?

(**Hint:** CSR activities by organisations not only increase the goodwill of the enterprise, but also help in philanthropic efforts.)

NMIMS

**WALMART'S FAILURE IN GERMANY: AN EXAMPLE OF CULTURAL INSENSITIVITY**

*This Case Study discusses the importance of corporate culture in organisations. It is with respect to Chapter 3 of the book.*

Walmart is one of the leading, US multinational corporations in the retail industry. The organisation has more than 11,000 stores across the world. The organisation has been recognised as “the largest retailer of the world” and “the biggest private employer in the world” by Forbes Global 500. In 1997, Walmart bought 21 stores in Germany to begin its operations in the country. In 1998, the organisation added 78 more stores. However, within four years of its operations, Walmart was clearly struggling to gain a foothold in the country as it had to bear the loss of approximately 1 billion Euros. The losses continued at the similar rate by 2005 too, which led to the cancellation of Walmart's expansion plans.

The failure of Walmart is mainly attributed to lack of cultural competency of the organisation. Walmart failed to respond to the differences in language, consumer behaviour, employment practices, and local traditions. This greatly damaged the reputation of the organisation in the eyes of German customers. The main factors that attributed to the failure of Walmart are:

- ❑ **Ignoring the local culture and buying behaviour:** Walmart failed to understand the attitudes, preferences, and perceptions of German customers and continued with the American retail structure. For example, shopping hours in Germany were shorter than the U.S. markets. Customers in Germany did not like to spend long hours in deciding what to buy. Moreover, they did not like the U.S. idea of being assisted while shopping and preferred all the discounts to be displayed at the entrance of the store. The mistake of Walmart was to impose the American culture on German rather than adjusting to their cultural habits.
- ❑ **Inefficient top management:** Managers at Walmart failed to understand the importance of adjusting to the German culture. The initial heads of German operations were U.S expatriates who did not understand the cultural difference of the German market and did not try to even learn the German language to improve communication with population. The management also failed to analyse political and economic complexities of the German market. The management completely failed to integrate the German culture to the existing business model of Walmart.

## N O T E S

## CASE STUDY 4

As a result, by 2006, Walmart had to close all its stores in Germany.



## QUESTIONS

1. “Walmart, a world leader of the retail industry was forced to close all its stores in the German market” State reasons for its failure.

(**Hints:** Failure to understand cultural differences, imposition of the American culture, inefficiency of the top management in creating a cultural fit)

2. According to you, what measures could have been taken by Walmart to ensure success in the German market?

(**Hints:** Analysis of political, economic, and cultural aspects of Germany, modification in the organisational structure as per the German culture, analysis of Trompenaars’ cultural dimensions model, and formulation of strategies to face local competition)



**SUCCESSFUL RESTRUCTURING  
AND LEADERSHIP AT STARBUCKS**

*This Case Study discusses about the importance of effective leadership in organisations. It is with respect to Chapter 4 of the book.*

Coffee lovers, Gordon Bowker, Jerry Bladwin, and Zev Siegl founded Starbucks in 1971 in Seattle, Washington. For opening a store, they invested \$1,350 and borrowed another \$5,000 from a bank. With its fast growth, Starbucks have become one of the largest coffeehouse companies in the world with 23187 stores in 64 countries.

In 1987, Baldwin, Bowker and Siegl decided to sell Starbucks with its six retail stores. Howard Schultz, vice president and general manager of U.S. operations for Hammarplast (a Swedish maker of stylish kitchen equipment and houseware), bought the company. Under the leadership of Howard Schultz, Starbucks grew rapidly with 110 stores in the early 1990s. He served as CEO of Starbucks from 1987 to 2000. After 2000, he took a break for 8 years (Starbucks went public in 1992 and enjoyed international growth) and re-joined as CEO of Starbucks. As per Schultz *“I am enthusiastic about returning to the role of chief executive officer for the long term and excited to lead Starbucks and its dedicated partners (employees) to even greater heights of achievement on a global basis,”*

Schultz focused on making some changes in Starbucks’ strategies. His agenda included the following:

- ❑ Improving the current state of business by refocusing on customer experience in the stores.
- ❑ Providing training to the stores’ staff for improving customer satisfaction.
- ❑ Closing stores that are underperforming in terms of growth.
- ❑ Reallocating resources to key value drivers.
- ❑ Expanding international business.

Apart from restructuring, the organisation has offered comprehensive benefits to part-time employees. It has designed a work life balance program that lays emphasis on physical, mental and spiritual wellbeing of employees. As a result, employees of Starbucks are motivated to provide innovative ideas. For instance, Frappuccino, a very popular cold coffee, was the result of the ideas of a few employees. In addition, one of the key aspects of the Starbucks’ human resource policies was their flexible nature.

## N O T E S

## CASE STUDY 5

Schultz, a visionary and great thinker, focused on transformational leadership wherein leaders inspire followers to work beyond their job responsibilities. He had the following characteristics of transformational leadership:

- ❑ **Inspirational:** Schultz inculcated the sense of teamwork among employees by his enthusiastic and optimistic approach. Starbucks designed employee benefits and training programs.
- ❑ **Idealistic:** Schultz was devoted and committed. He made himself as an example for employees to follow him.
- ❑ **Intellectual:** Schultz was rational and logical. He analysed the problematic situations and gave appropriate solutions. Starbucks appreciated feedback from employees to make them feel empowered and encouraged.

Leadership style followed by Schultz was both democratic and authoritarian. This is because Schultz looked for employees who are team players and treated employees as partners. The values of leadership in his tenure were described by empowerment, quality, and service. Apart from this, Schultz had to make some strong decisions, such as employee layoff, cost cutting in time of recession.

For the overall growth of Starbucks, Schultz focused on various strategies that helped in maintaining a competitive edge. As per Schultz, the success of Starbucks relies on change. All areas of Starbucks were well scrutinised by Schultz, which made Starbucks the most flourishing coffee shop in the world.



## QUESTIONS

1. If you were in charge of Starbucks's restructuring plan, what changes would you have made?

(**Hint:** Matrix organisational structure can be followed where managers of different countries coordinate together and there is multiple reporting)

2. What other leadership styles could be followed by Harold that can fit Starbucks well?

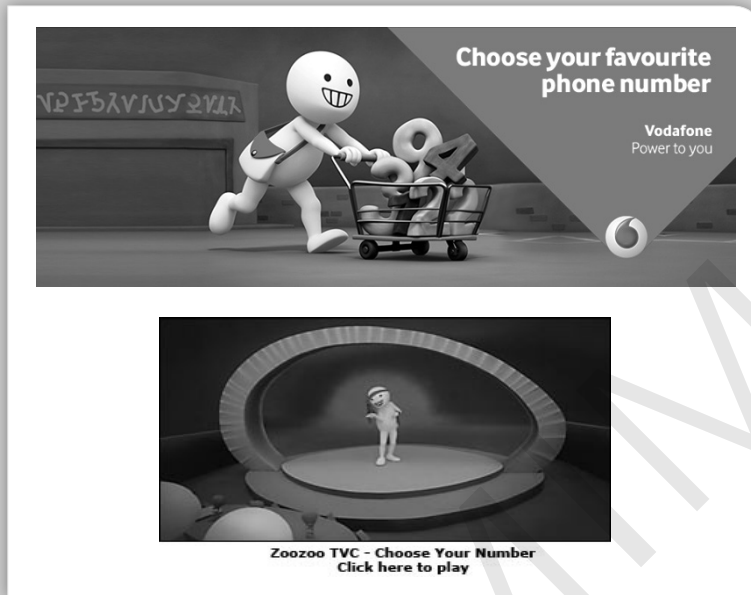
(**Hint:** Transactional leadership, charismatic leadership and situational leadership)

## CASE STUDY 6

## N O T E S

### VODAFONE ESSAR'S COMMUNICATION STRATEGY: THE 'ZOOZOOS' CAMPAIGN

*This Case Study discusses the impact of effective communication on the performance of organisations. It is with respect to Chapter 5 of the book.*



Vodafone Essar Limited is an India-based subsidiary of Vodafone, a world's leading global mobile network. In today's competitive era, organisations are using various communication tools to make customers aware of their products and services. Vodafone's Zoozoo ads have proved to be creative and successful in promoting the Value Added Services (VAS) of Vodafone. Ogilvy & Mather, a global advertising, marketing and public relations agency, successfully handles the responsibility of creating these Zoozoo ads for Vodafone. These ads are aired during the Indian Premier League (IPL) cricket tournament.

Zoozoos are eggshell-shaped characters that communicate how the Vodafone's unique products and services make the lives of users simple and convenient. Every ad shows an exclusive story enacted by Zoozoos with the purpose of informing customers about VAS offered by the company. These Zoozoos have become a buzzword not only in traditional media like television and newspapers but also in social networking sites like Facebook, Twitter, and YouTube.

Vodafone understands the value of effective communication with customers. Thus, it started Zoozoo campaigns for IPL season 2 to communicate how mobile internet navigation is a fun experi-

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ence with Vodafone. The first zoozoo ad showed a telematch being played between two teams dressed as chicken and penguin. Commenting on the ad-execution, **Kapil Arora, Country Head, Vodafone** said, *The reason we brought in the concept of a telematch was to weave in authenticity in the message through a simple format such as that of these fun games. It clearly portrayed how browsing mobile internet on Vodafone is simpler and more fun considering it enables optimization of data and a better spread of network.* Since then the Zoozoo campaigns are reiterating every year during IPL series with new concepts.

In 2014, during IPL Season 7, Vodafone launched several new Zoozoo ads created by Ogilvy & Mather. The first two ads revolved around Vodafone's two product plans, which are 'Choose Your Number' and 'Chhota Credit.' In these ads, Zoozoos communicated about the new plans of Vodafone in a creative and engaging manner. 'Chhota Credit' displays a quiz show where a Zoozoo, who is the quiz master, asks a question to the participant Zoozoo and gives him four options. The Zoozoo wants to use a lifeline, where he could phone a friend to get the correct answer. However, as he dials the number, he realises that there is no balance left on his phone. Just then, a message appears, *'Ran out of balance? Top-up instantly with Chhota Credit.'*

Another ad campaign, 'Choose the Number' represents a stage of a reality show where a Zoozoo participant does different acts. When he saw that judges are not impressed by his performance, he dances on a popular Bollywood number, which the judges like and give him full scores.

**Rajiv Rao**, NCD, Ogilvy, says, *The brief was to communicate new services and products of the brand. There are lots of new offerings of the brand that will be communicated with a series of 10 Zoozoo ads that will be launched during IPL 7. The properties - IPL and Zoozoos - have become stronger together for Vodafone and this is the reason why Zoozoos come back every IPL season. Since the characters are clutter-breaking, they make sure that Vodafone's communication isn't lost in the other ads.*

**Ronita Mitra**, SVP, Brand Communications and Insights, Vodafone India, says, *The Zoozoos have become a big part of India's cultural conscience. Breaking through the monotony and fatigue, the Zoozoos have been presented in a refreshed and engaging creative format to communicate our proposition.*

Though Zoozoos do not deliver dialogues, they still manage to transfer messages in a very effective manner. As per Rajiv Rao, *It's telling a story without any dialogue. They are simple and uni-*

## CASE STUDY 6

## N O T E S

*versal. The main challenge is to come up with interesting and refreshing ideas.*

Vodafone Zoozoos not only communicate the message in a creative manner but also act as an unusual and memorable creative device to produce a good recall value to customers. The Vodafone communication strategy also focuses on bringing back Zoozoos once a year to ensure longevity and value for the brand. According to **Sharda Agarwal**, Executive Director, MarketGate Consulting, *If it was there through the year, there would have been fatigue. With this, Vodafone is ensuring longevity, a longer life for the property. Vodafone, IPL and Zoozoo are a triangular relationship and it works positively for the brand.*



### QUESTIONS

1. Discuss the communication strategy followed by Vodafone.

**(Hint:** Vodafone understands the value of effective communication with customers. The Zoozoo ads of Vodafone communicate the message in a creative way and act as an unusual and memorable device to produce a good recall value to customers. The Vodafone communication strategy also focuses on bringing back Zoozoos once a year to ensure longevity and build brand image in the market.)

2. "Vodafone's Zoozoo campaigns have set a benchmark for effective communication for the whole telecommunication industry." Explain.

**(Hint:** The Vodafone Zoozoos are successful in conveying the message to the target audience without delivering any dialogues. This unique feature of Zoozoos has made them popular not only in the traditional media like television and newspapers but also in social networking sites like Facebook, Twitter, and YouTube.)

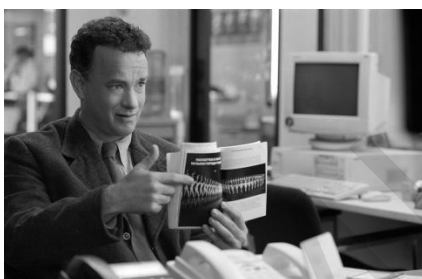
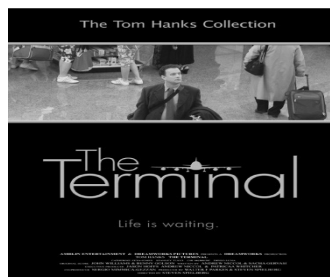
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## CASE STUDY 7

## N O T E S

### THE TERMINAL: AN IMPECCABLE SPECIMEN OF BRIDGING COMMUNICATION GAP

*This Case Study discusses the ways to overcome communication gaps. It is with respect to Chapter 5 of the book.*



The Terminal is an American movie that illustrates the life of a Krakozhian traveller Viktor Navorski (lead character, played by Tom Hanks) who is stuck at the America's John F. Kennedy International Airport for almost one year. Directed by Steven Spielberg, the film successfully depicts the situation of a man, who is caught in a situation where he anxiously tries to communicate with busy Americans at the airport but fails as he is not fluent in the English language.

Viktor Navorski arrives at New York's airport where the airport officials try to explain him that his passport is no longer valid in the US due to the outbreak of a civil war in Krakozhia. As Viktor could not communicate in English, he is forced to hand over his passport to the police. He gets stuck at the airport and is neither allowed to enter the American city, nor to return to his homeland, Krakozhia.

Viktor had no other choice, but to settle at the terminal. The movie beautifully shows how a man who only knows a few words of English had spent several months at a place where no one understood any language other than English. In such a situation, Viktor

## N O T E S

## CASE STUDY 7

tries to learn English with the help of a translation guidebook and through watching news channels and reading subtitles.

As Viktor could not communicate effectively in English, it initially caused social isolation for him. However, the character of Viktor is drawn so positively that he never gets discouraged even under the situation of a major communication gap. He not only manages to control and adapt to his unique environment but his continuous efforts to survive in the situation make him friends with many people. His facial expressions, gestures, steady practice to communicate with others, and persistent listening skills prove him a warm and positive man who in spite of being very serious never takes life too seriously. Though Viktor does not know much English, he well manages to express that he is hardworking and very honest.

The movie well defines how a man successfully communicates his feelings to other especially at a location where he could not find any familiar signs, symbols, language and surroundings. Under such dire conditions, he not only connects himself with the surroundings but makes friends with people with whom he had never met or interacted before.



## QUESTIONS

1. Viktor faces some communication barriers due to unfamiliar language. Discuss those barriers in reference to the case study.

**(Hint:** Communication is a process of expressing and transmitting ideas, thoughts, opinions, or beliefs among individuals either verbally or nonverbally. As Viktor Navorski could not communicate effectively in English, it initially caused social isolation for him. In this way, unfamiliar language may work as a barrier to effective communication.)

2. If you were at the position of Viktor Navorski what measures would you have taken for handling the situation of communication gap?

**(Hint:** Viktor never got discouraged by the situation of the communication gap. He tried to learn English with the help of a translation guidebook and through watching news channels and reading subtitles. His facial expressions, gestures, steady practice to communicate with others, and persistent listening skills, proved him a warm and positive man who successfully communicated his feelings even under adverse situations.)



## CASE STUDY 8

## N O T E S

### FAILURE OF PEUGEOT IN INDIA

*This Case Study discusses about the impact of poor planning on the performance of an organisation. It is with respect to Chapter 6 of the book.*



Peugeot, a French car brand, is one of the biggest car makers in Europe. It is a part of PSA Peugeot criterion and the second largest car manufacturer.

When the Indian economy was opened to foreign players in the 1990s, Peugeot entered the Indian market through joint venture in 1992 with PAL-Peugeot Ltd. Peugeot gained first mover advantage in the Indian automobile market with its passenger car model, Peugeot 309. This car was launched against the cars, Daewoo Cielo and Maruti's Esteem. The initial response towards this car was positive and the company sold 10000 units in its first year.

The production of cars disrupted in 1996 due to labour unrest. This led to losses and cash crunch for Peugeot. By 1997, the losses increased to ₹ 3 billion. This forced Peugeot to exit the Indian market in November 1997. Peugeot justified that exiting India was the company's decision to concentrate on the European market.

The Peugeot's problems are traced back to PAL's association with Fiat in June 1996. PAL entered into the agreement with Fiat to assemble Fiat Uno at Kurla plant. The slowdown at Kalyan plant (Peugeot plant) had its roots in the problems at Kurla plant where the workers went on strike due to less wages, incentives, and VRS. The Kurla and Kalyan plants were related to each other as the Kurla plant was the sole supplier of components such as gear boxes to the Kalyan plant.

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## CASE STUDY 8

For meeting the demand for cars, PAL's management asked workers at the Kalyan plant to increase the production of cars from 16 cars to 20 cars per day. This raised anger among worker unions of the Kalyan's plant. The union stated that as per the wage agreement, the management had to consult the union for deciding the production target. As per the union, the management stopped all incentives and sacked many workers. However, the management defended this view and justified that it had extended the earnings of the labour by extending the incentives.

The labour unrest led to delay in delivery of Peugeot 309 and around 60,000 bookings were cancelled. Heavy inventory carrying costs were also faced by Peugeot. The consumers were expected to get the booking amount within 60 days of the cancellation. However, they failed to get money back and thus filed complaints with Monopolies Restrictive Trade Practices Commission (MRT-PC). MRTPC ordered Peugeot to repay amount with 9% interest.

The management restructured a new union in October 1996 with new workers. At that time, Peugeot was disappeared from the market and the players, Ford's Escort and Daewoo's Cielo, were well established. For reinvention, Peugeot wanted to infuse fresh capital into venture and approached PAL for the sharing of funds and capitalising losses. However, PAL refused it by stating that it would project an unrealistic picture of the organisation's financial health. This cropped up many differences between the partners.

The solutions given by PAL for the Peugeot issues were:

- ❑ PAL asked Peugeot to raise loans abroad as they are easily available at 4-6% as compared to 20% in India. Peugeot did not pay heed to this suggestion.
- ❑ PAL proposed Peugeot to buy PAL's stake in the joint venture. However, this was failed as PAL was asking for ₹ 15 per share and Peugeot was able to pay only ₹ 10 per share.

The PAL-Peugeot faced another problem in 1997 when the commerce ministry failed to renew its license for importing spare parts kits for Peugeot 309. The reason behind this was that the company failed to meet export targets as staged in the memorandum with the Directorate General of Foreign Trade.

The tie up between PAL and Peugeot worsened when PAL upgraded its technical agreement with Fiat into joint venture. Peugeot served a legal notice to PAL for the violation of non-complete clause in the agreement signed between PAL-Peugeot. It also filed a case for getting a stay on PAL-Peugeot. The reason given

## CASE STUDY 8

## N O T E S

was that PAL did not bring fresh funds for PAL- Peugeot when asked. On the other hand, PAL embarked ₹ 2.75 billion funds for Fiat Uno. This made PAL agreed to allow Peugeot to infuse fresh capital and also it was decided to sell the PAL's stake to Peugeot.

However, at the end of the year 1997, Peugeot withdrew the case against PAL and planned to leave the Indian market by drawing out from the joint venture. Peugeot asked PAL to buy its stake. Peugeot gave one month notice to PAL for finding any other restructuring options.

The withdrawal from the Indian market panicked the Indian Peugeot customers. The Peugeot assured that the spare parts would be maintained. However, it left the market with issues, such as customer refund amount was still unpaid.



### QUESTIONS

1. Narrate the reasons for the Peugeot's failure and the loss of its market share in the Indian market.

(**Hint:** A wrong entry strategy in 1994 with the wrong partner, no committing investments for the Indian market, poor management, etc. were the main errors for Peugeot's failure)

2. Do you think that Peugeot could have survived in the market?

(**Hint:** Yes, Peugeot could have survived if it has paid heed to PAL's suggestions of raising loans abroad and buying PAL's stake in the joint venture.)

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## CASE STUDY 9

## N O T E S

### PIXAR: ANIMATED LEADERSHIP

*This Case Study discusses about the application of leadership in organisations. It is with respect to Chapter 7 of the book.*



Pixar Animation Studios began its journey in 1979 as Graphics Group, a part of the Computer Division of Lucasfilm. It was acquired by Steve Jobs, the co-founder of Apple Computer, in 1986. Today, Pixar is known as one of the most prominent leader in the animation industry with its film studio based in Emeryville, California. The studio has earned 26 Academy Awards, 7 Golden Globes, and 3 Grammy Awards, along with many other awards and acknowledgement. In 2006, The Walt Disney Company bought Pixar at valuation of \$7.4 billion, which was one of the biggest transaction made in the animation industry.

Pixar started its success story by producing Toy Story in 1995, which is one of most successful first long-length feature film made in CG animation format ever. The voyage was followed by A Bug's Life in 1998, Toy Story 2 in 1999, Monsters Inc. in 2001, Finding Nemo in 2003, The Incredibles in 2004, Cars in 2006, Ratatouille in 2007, WALL-E in 2008, Up in 2009, Toy Story 3 in 2010, Cars 2 in 2011, Brave in 2012 and Monsters University in 2013. All of these films produced by Pixar are among the top 50 highest grossing animated films of all time, including Finding Nemo ( ranking 26), and Toy Story 3 (ranking 12) all in the top 50 highest grossing films of all time.

The success of Pixar begs the question on the secret recipe for the success behind Pixar. Literally, it is both; the leadership and

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culture that consistently promoted Pixar to produce great films. Pixar provides a model for energising employees by entrusting culture with shared attitude and behaviour that helps the company in gaining competitive advantage globally.

ED Catmull, the co-founder of Pixar Animation Studios and the president of Pixar Animation and Disney Animation, created Pixar along with Steve Jobs and John Lasseter as a phenomenal success. Here are three ways that Catmull and his leadership team followed to create a culture that consistently produces great films.

### CARE ABOUT PEOPLE FIRST

Catmull defines a turning point that occurred during the making Toy Story 2. Employees at Pixar worked 24X7 for over an exhausting 9 month period to complete the film. As a result, by the end of these 9 months, a large number of employees had repetitive stress injuries. On one occasion, a tired artist forgot that he is carrying his son with him and left the child in his car parked in the Pixar parking lot for 3 hours, which led the child in a serious condition. The incident shocked Catmull and other leaders at Pixar. After that incidence, Pixar decided that the well-being of employees is more important than making films. It identified that it is the responsibility of leaders to protect employees at all costs. Catmull believes that no organisation could sustain for so long if it allows harm to come to its people. This is because ideas come from people and in order to attract the best people, the organisation should never ignore their welfare.

### FOCUS ON A PURPOSE THAT MAKES PEOPLE FEEL PROUD

Pixar aims to 'make great films.' The Pixar leadership believes that it is the great films that attract people to Pixar. It makes them feel proud and energises them. It was the vision that made Pixar's leaders to see that Brad Bird (director) and John Walker (producer) had sound capability to make great films but at the same time they also knew that Bird did not have access to the kind of technology Pixar had. So they went after him and offered a partnership. It is comprehensive visionary style of Pixar's leadership, which had made it a trend that whenever Pixar focuses on making great films, profit follows. Pixar never focuses on profit first, because they knew that it would lead to compromising the purpose and extracting the passion and energy out of the organisation.

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### ENCOURAGE SELF-EXPRESSION AND DIVERSITY OF THOUGHT

Unlike most of the companies that have majority of employees feeling that senior management does not value their opinions and ideas, Pixar values the ideas of each and every employee. According to **Catmull**, *Great movies are made from the tens of thousands of ideas that go into them from beginning to completion. As such, everyone needs to contribute their ideas and opinions, everyone's work matters and everyone makes a difference in the quality of a film.*

Catmull understands that in the animation market where creativity and innovation are the most significant requirements for being successful, self-expression and diversity of thought are the two parameters that can bring a competitive advantage for any organisation. He believes that the best ideas can come from anyone in the company. Therefore, it is very important for the leaders to create an environment that encourages a rich marketplace of ideas. Everyone at Pixar has a great level of responsibility towards themselves and their colleagues. Not only this, they also take great pride in their work and believe in the company's mission.



#### QUESTIONS

1. How Catmull's leadership created a culture that consistently makes great films?

(**Hint:** Catmull believes that creativity and innovation are maximised in a company that has a rich marketplace of ideas.)

2. "A leader has an ability to influence a group of people towards the achievement of common goals and objectives." Ascertain the legitimacy of the sentence by taking an example of ED Catmull from the aforementioned case study.

(**Hint:** Catmull works on strong practical strategy for cultivating an artistic culture in the company and an entrepreneurial spirit within individuals. It is the result of Catmull's efforts that everyone at Pixar has a great level of responsibility toward themselves and their colleagues.)

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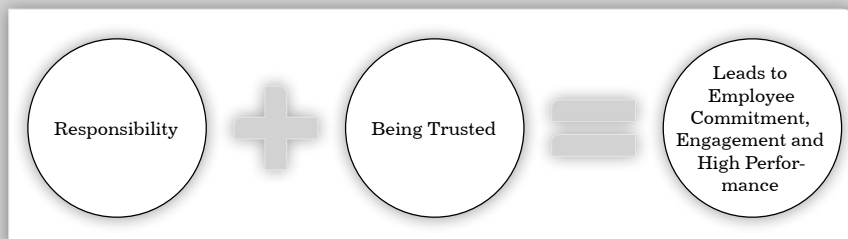
### SIEMENS: PEOPLE EXCELLENCE THROUGH MOTIVATION

*This Case Study discusses about the importance of employee motivation in organisations. It is with respect to Chapter 8 of the book.*



A German engineering conglomerate, Siemens AG is a global electrical and electronics organisation with its international headquarters based in Berlin, Munich, and Erlangen. Siemens is an organisation that is built on a high performance culture, shared by everyone from the most senior executive to trainee-level associates. Siemens understands the importance of its employees to achieve organisational goals.

A key pillar of the Siemens' strategy, along with operational excellence and corporate responsibility, is the way it manages, develops, and motivates its employees. The part of the Siemens' business strategy that relates to people management is referred to as people excellence. The following figure shows the pillars that lead to commitment, engagement, and high performance of employees:



Pillars of People Excellence

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At Siemens, it is believed that real motivation comes from within an individual. People excellence comes only when everybody in the organisation shows active participation in organisational activities. For this, the management of Siemens delegates responsibility to its every employee that makes employees feel that they are trusted by the organisation. In this way, individuals feel valued and willingly contribute to the success of the organisation.

Siemens considers workforce as a source of competitive advantage. Therefore, the management ensures that its employees work on developing the organisation's heritage of innovation. Siemens makes people feel valued and engaged through various ways, such as personal letters, special mentioning in meetings, promotions, and salary hikes.

Siemens ensures that every employee is provided with guidance and support to achieve organisational goals and objectives. This motivates employees and develops a sense of togetherness among them; thereby meeting organisational as well as personal goals effectively. In Siemens, everyone shares the same vision and dreams, which help the organisation to progress and take on greater challenges.

Siemens' business strategy follows a global philosophy of talent management and performance management in order to engage and motivate employees. Siemens has also created a standard process for managing the performance of all its employees. Managers delegate responsibility to employees as per their skills and talents.

Siemens has high performance culture that attracts a global pool of talent. Within Siemens, everyone gets an opportunity to develop their own specialisation and acquire further expertise. This motivates employees to work towards the achievement of organisational goals and objectives.

**CASE STUDY 10****N O T E S****QUESTIONS**

1. What is the role of motivation in establishing a successful business environment? Discuss with reference to the above case study.

**(Hint:** Motivation helps in identifying and fulfilling the needs of employees and inspires them to make sincere efforts for accomplishing organisational goals.)

2. How does Siemens ensure people excellence through motivation?

**(Hint:** The management of Siemens delegates responsibility to its every employee that makes employees feel that they are trusted by the organisation. In this way, individuals feel valued and willingly contribute to the success of the organisation. At Siemens, it is believed that real motivation comes from within an individual. People excellence comes only when everybody in the organisation shows active participation in organisational activities.)

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**CHANGE MANAGEMENT AT NISSAN**

*This Case Study discusses about change management in organisations. It is with respect to Chapter 9 of the book.*



Nissan Motor Company, Ltd. (Nissan) is a Japan-based multinational automaker. It is a good example of organisational change. Formerly, Nissan was a core company of Nissan Group. However, it became independent after restructuring in 2000. Nissan entered into an alliance with Renault in 2000. At that time, the Nissan's CEO Carlos Ghosn made changes in the organisational structure of Nissan. The main objective was to increase the profit of the organisation. Moreover, he introduced many new concepts like competency management, performance management, career development, succession management, and so on in the organisation.

Ghosn's efforts not only resulted in increased sales, asset streamlining, and cost-cutting, but also helped Nissan to achieve high market share from 4.6 % globally in 1999 to 5.3% in 2003. Apart from growth, Nissan worked towards increasing women's empowerment in business in Japan. As per his research, women were the influencers of two-third of car purchases. Thus, the organisation formed various strategies to encourage the engagement of women in decision making. For this, it took initiatives like women education and advancement. Nissan also provided 'Career Advisors' for women to advise them on their future career advancements. In addition, Ghosn took ownership for the organisation's overall turnover. For this, he prepared a timetable under which the company had to recover from losses.

The organisational change brought by Ghosn in Nissan has instilled a new life in the organisation. It has not only changed the working environment of the organisation but also resulted in in-

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creased profits. The changes brought in the organisation have resulted in the change in the workforce. The organisation has started promoting diversity and hiring people irrespective of their backgrounds, castes, creed, gender, and colour. It has also started focusing on talent management and succession planning. This has helped employees in generating new and innovative ideas to increase the organisation's profit. Today, Nissan is listed in 101 Best and Brightest Places to Work in Southeast Michigan every year.



## QUESTIONS

1. State the reasons why Nissan is listed among 101 Best Place to work in southeast Michigan every year?

(**Hint:** Innovative ideas, talent management, succession planning, women empowerment, etc.)

2. How change management and organisational development go hand in hand? Explain in the context of the above case study.

(**Hint:** Organisation development is an effort to plan change for increasing organisational effectiveness and efficiency.)

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### APPLICATION OF INFORMATION SYSTEM IN WALMART

*This Case Study discusses the significance of information system in an organisation. It is with respect to Chapter 10 of the book.*



Walmart is one of the leading brands in the world's retail industry. The US-based company adopted an information system in 1983 to technologically improve its services. This information system was an elaborate satellite network. This network has significant impact on improving communication throughout the organisation.



Walmart linked the point of sale terminals of all the stores together for information sourcing. Within a few years, the system turned into a complex network connecting Walmart stores across the world. It linked headquarters with all distribution centers (Walmart stores) and suppliers. This system facilitated a just-in-time application in the supply chain along with effective inventory management. The system was so formulated that as soon as one

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item is sold from the store, an alert message is sent to its supplier to make the replacement available. The next scheduled shipment had to carry this replacement to the store. This tight inventory control allowed not only effective inventory management but also cost-effective functioning. It also facilitated better customer service by reducing lead time of delivery. This has led Walmart to earn high profits and become a leader in the retail industry.



## QUESTIONS

1. Identify the competitive strategy followed by Walmart.

**(Hint:** Efficient inventory management allowed Walmart to incur low costs on production, which is now counted as its major strength.)

2. Point out the benefits of the information system installed by Walmart.

**(Hint:** Effective coordination and control on business process, maintenance of supply chain, reduction in wastage, control on cost by efficient inventory management, etc.)