Auditing Course Material

Part 6 of 61 (Chapters 501-600)

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- Refusal of supply of essential equipments and raw materials from the allies during Indo-Pak war resulted in twin objectives of “growth with stability” and “progressive achievement of self-reliance” for the Fourth Plan.
- Main emphasis was on growth rate of agriculture, to enable other sectors to move forward. First two years of the plan saw growth in production. The last 3 years did not measure up due to poor monsoon.
- Implementation of Family Planning Programmes were amongst major targets of the Plan.
- Influx of Bangladeshi refugees before and after 1971 Indo-Pak war was an important issue along with price situation deteriorating to crisis proportions and the plan is considered as big failure.
- Target Growth: 5.7%; Actual Growth: 3.3%

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- The final Draft of Fifth Plan was prepared and launched by D.P. Dhar in the backdrop of economic crisis arising out of run-away inflation fuelled by hike in oil prices and failure of the Government takeover of the wholesale trade in wheat.
- It proposed to achieve 2 main objectives: ‘removal of poverty’ (Garibi Hatao) and ‘attainment of self-reliance’.
- Promotion of high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments.
- Due to high inflation, cost calculations for the Plan proved to be completely wrong and the original public sector outlay had to be revised upwards. After promulgation of emergency in 1975, the emphasis shifted to the implementation of Prime Minister’s 20 Point Programme. FYP was relegated to the background and when Janta Party came to power in 1978, the Plan was terminated.
- Target Growth: 4.4%; Actual Growth: 4.8%

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- There were 2 Sixth Plans. Janta Government put forward a plan for 1978-83 emphasizing on employment, in contrast to Nehru Model which the Government criticized for concentration of power, widening inequality and for mounting poverty.
- However, the Government lasted for only 2 years. Congress Government returned to power in 1980 and launched a different plan aiming at directly attacking on the problem of poverty by creating conditions of an expanding economy.

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- The Plan focussed on increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment through schemes like transferring TRYSEM (Training of Rural Youth for Self Employment) and IRDP (Integrated Rural Development Programme) and providing slack season employment (NREP- National Rural Employment Programme), controlling population explosion etc.
- Broadly, the Plan could be taken as a success as most of the targets were achieved even though during the last year (1984-85) many parts of the country faced severe famine conditions and agricultural output was less than the record output of previous year.
- Target Growth: 5.2%; Actual Growth: 5.7%

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- The Plan aimed at accelerating food grain production, increasing employment opportunities & raising productivity with focus on ‘food, work & productivity’.
- The plan was very successful as the economy recorded 6% growth rate against the targeted 5% with the decade of 80’s struggling out of the’ Hindu Rate of Growth’.
- Target Growth: 5.0%; Actual Growth: 6.0%

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- The Eighth Plan was postponed by two years because of political uncertainty at the Centre.
- Worsening Balance of Payment position, rising debt burden, widening budget deficits, recession in industry and inflation were the key issues during the launch of the Plan.
- The Plan undertook drastic policy measures to combat the bad economic situation and to undertake an annual average growth of 5.6% through introduction of fiscal & economic reforms, including liberalization under the Prime Ministership of Shri P. V. Narasimha Rao.
- Some of the main economic outcomes during Eighth Plan period were rapid economic growth (highest annual growth rate so far – 6.8 %), high growth of agriculture and allied sectors, and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit.
- High growth rate was achieved even though the share of public sector in total investment had declined considerably to about 34%.
- Target Growth: 5.6 %; Actual Growth: 6.8%

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- The Plan prepared under United Front Government focussed on "Growth with Social Justice & Equality".
- Ninth Plan aimed at depending predominantly on the private sector – Indian as well as foreign (FDI) & State was envisaged to increasingly play the role of facilitator & increasingly involve itself with social sectors, viz., education, health, etc. and infrastructure where private sector participation was likely to be limited.
- It assigned priority to agriculture & rural development with a view to generate adequate productive employment and eradicate poverty.
- Target Growth: 6.5%; Actual Growth: 5.4%

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- Recognizing that economic growth cannot be the only objective of national plan, Tenth Plan had set 'monitorable targets' for few key indicators (11 indicators) of development, besides 8% growth target.
- The targets included reduction in gender gaps in literacy and wage rate, reduction in infant & maternal mortality rates, improvement in literacy, access to potable drinking water, cleaning of major polluted rivers, etc.
- Governance was considered as factor of development & agriculture was declared as prime moving force of the economy.
- State's role in planning was to be increased with greater involvement of Panchayati Raj Institutions.
- State wise break up of targets for growth and social development sought to achieve balanced development of all States.
- Target Growth: 8 %; Actual Growth: 7.6 %

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- Eleventh Plan was aimed 'Towards Faster & More Inclusive Growth' as it was perceived that the growth was not sufficiently inclusive for many groups.
- The broad vision for 11th Plan included several inter related components like rapid growth, reducing poverty & creating employment opportunities, access to essential services in health & education, especially for the poor, extension of employment opportunities using National Rural Employment Guarantee Programme, environmental sustainability, reduction of gender inequality, etc.
- The Eleventh Plan started well but subsequent events of global financial crisis (2008) and sovereign debt crisis in Europe (2011) forced the average annual growth rate to 8%.
- Target Growth: 9 %; Actual Growth: 8%

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- Twelfth Five Year Plan emphasized on bringing the economy back to rapid growth while ensuring that the growth is both inclusive and sustainable.
- The broad vision and aspirations were reflected in the subtitle: 'Faster, Sustainable, and More Inclusive Growth'.
- Inclusiveness is to be achieved through poverty reduction, promoting group equality and regional balance, reducing inequality, empowering people, etc.
- Sustainability includes ensuring environmental sustainability, development of human capital through improved health, education, skill development, nutrition, information technology, etc. and development of institutional capabilities, infrastructure like power telecommunication, roads, transport, etc.

Twelfth Plan (2012-17) was the last plan and, after that, the planning process was taken over by the NITI Aayog.

---

7. NITI Aayog

The Government of India, in keeping with its reform agenda, constituted the NITI Aayog in January 2015 to replace the Planning Commission instituted in 1950. This was done, in order to, better serve the needs and aspirations of the people of India.

NITI stands for 'National Institution for Transforming India'. It is the premier policy 'Think Tank' of the Government of India providing both directional and policy inputs. While designing strategic and long term policies and programmes for the Government of India, NITI Aayog also provides relevant technical advice to the Centre and States. An important evolutionary change from the past, NITI Aayog acts as the quintessential platform of the Government of India to bring States to act together in national interest, and, thereby, fosters Cooperative Federalism.

NITI Aayog was not created by an Act of Parliament. Thus, it is not a statutory body. It was created by an executive decision.

In May 2016, the Prime Minister's Office advised the NITI Aayog, to prepare a 15 Years Vision, 7 Years Strategy and 3 Years Action Agenda. The 3 Year Action Agenda has covered the period from 2017-18 to 2019-20.

---

7. NITI Aayog

Some of the initiatives of NITI Aayog are listed below.

Measuring performance and ranking States on outcomes in critical sectors

With emphasis on outcomes, NITI Aayog finalized following indices to measure outcomes in social sectors:

- District Hospital Index
- Developed the 'Healthy States, Progressive India' Report, also known as the 'Health Outcome Index'
- Composite Water Management Index
- School Education Quality Index (SEQI)
- SDG India Index
- Digital Transformation Index (DTI)

Sustainable Action for Transforming Human Capital (SATH)

SATH is aimed at initiating transformation in education and health, by hand-holding States towards improving their social sector indicators.

SDG India Index

The SDG India Index tracks progress of all States and UTs on 62 Priority Indicators selected by NITI Aayog, which in turn, is guided by Ministry of Statistics & Programme Implementation (MoSPI's) National Indicator Framework comprising 306 indicators. It aims to measure India and its States' progress towards the SDGs for 2030.

A composite score was computed between the range of 0-100 for each State and UT. The classification criteria based on SDG India Index Score is as follows:

- Aspirant: 0-49
- Performer: 50-64
- Front Runner: 65-99
- Achiever: 100

The index was first launched in 2018 whereas the 3rd edition was released in June 2021. The SDG India Index 2020–21 (3rd edition) is more robust than the previous editions on account of wider coverage of targets and indicators with greater alignment with the NIF. It covers 115 indicators incorporate 16 out of 17 SDGs, with a qualitative assessment on Goal 17, and cover 70 SDG targets. This is an improvement over the 2018–19 and 2019–20 editions of the index, which had utilized 62 indicators across 39 targets and 13 Goals, and 100 indicators across 54 targets and 16 Goals, respectively.

Ek Bharat Shrestha Bharat

Ek Bharat Shrestha Bharat, EBSB was conceptualized in 2015, to make our country united, strong and promote excellence in all walks of life by means of long-term inter-state engagements through cultural exchanges and education.

Development Support Services to States (DSSS) for Development of Infrastructure

To establish a Centre-State partnership model and reignite and establish Private Public Partnership across infrastructure sectors, the DSSS was launched to de-risk projects and address key structural issues.

Transforming of 115 identified Aspirational Districts

To realize the vision of Sabka Saath, Sabka Vikas, and ensure that India's growth process remains inclusive, the 'Aspirational District Programme (ADP)' was launched in 2018. It is a special initiative to rapidly transform 115 identified districts that have shown relatively lesser progress in key social areas.

Island Development Agency (IDA)

The Island Development Agency (IDA) was set up in June 2017 under the Chairmanship of Home Minister, with the CEO, NITI Aayog as the Convener. It undertakes reviews on the progress relating to holistic development of identified islands.

SAMAVESH

'SAMAVESH' is a programme launched by the NITI Aayog to link together various leading knowledge and research institutions, to catalyze development processes, enhance institutional capacity development and enable a field level interface with the community for mutual enrichment.

Champions of Change

Under this, workshops of young CEOs and young entrepreneurs were organised to make policy making responsive to stakeholder consultation.

Atal Innovation Mission

The Atal Innovation Mission (AIM) is a flagship initiative set up by the NITI Aayog to promote innovation and entrepreneurship. Major initiatives taken by AIM are given below:

- **Atal Tinkering Labs (ATLs):** ATLs are dedicated innovation workspaces, where Do-it-Yourself (DIY) kits on latest technologies like 3D Printers, Robotics, Internet of Things (IoT), Miniaturized electronics are installed using a grant from the government so that students from Grade VI to Grade XII can tinker with these technologies and learn to create innovative solutions using these technologies.
- **Atal Incubation Centres (AIC):** At the University, NGO, SME and Corporate industry levels, AIM is setting up world-class Atal Incubators (AICs) that would trigger and enable successful growth of sustainable startups in every sector /state of the country. Women led incubators and entrepreneurial startups are also strongly encouraged by AIM.
- **Atal New India Challenges (ANICs):** 'Atal New India Challenge' is an initiative aimed at supporting innovators to create products/solutions based on advanced technologies in areas of national importance and social relevance through a grant-based mechanism.

Women Entrepreneurship Platform (WEP)

WEP is the first of its kind, facilitation platform which is mandated to work in collaboration with public as well as private sector organizations and bring them on a single platform by listing their women focused entrepreneurship schemes, initiatives and programmes on WEP website. It also enables sharing of best practices amongst women entrepreneurs and partner organizations and promote evidence based policy making. WEP was formally launched on 8th March, 2018, on the occasion of International Women's Day.

National Data and Analytics Platform (NDAP)

National Data and Analytics Platform (NDAP) is a web portal that will serve as a single point for accessing data across all Ministries of Government of India combined with intuitive visualization and self-service analytics. The portal would provide natural language understanding based on advanced search features.

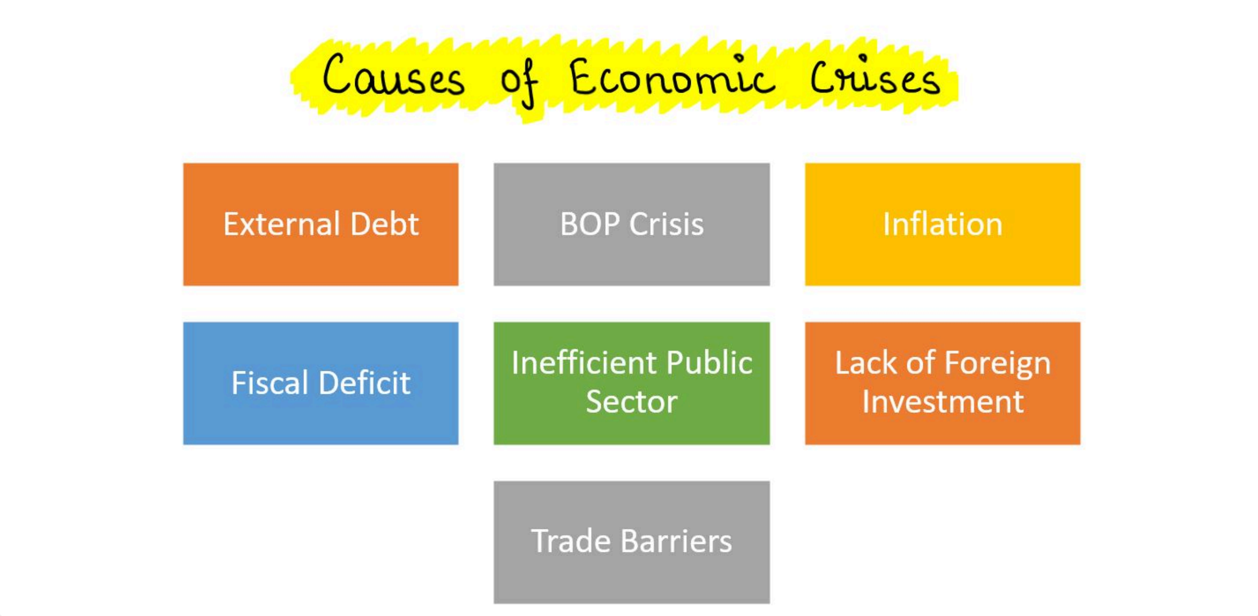
The NITI Aayog has also been instrumental in drafting National Strategy on Artificial Intelligence, National Maritime Policy, National Energy Policy and Material Recycling Policy.

---

8. New Economic Policy 1991

In 1991, India faced an economic crisis related to its external debt. The country was struggling to make repayments on its borrowings from abroad, which resulted in a significant drop in its Foreign Exchange Reserves. The crisis was further compounded by the rising prices of essential goods, creating a challenging situation for the Indian economy. In response, the Government of India introduced a new set of policy measures to change the direction of its developmental strategies. These policy measures were collectively known as the LPG Policy, which stood for Liberalization, Privatization, and Globalization Policy, or the New Economic Policy (NEP) of 1991.

8. New Economic Policy 1991



The origin of the financial crisis can be traced from the inefficient management of Indian economy in 1980s.

Development policies of the time required that even though the revenues were very low, the Government had to overshoot its revenue to meet challenges like unemployment, poverty and population explosion. The continued spending on development programmes of the Government did not generate additional revenue. Moreover, the Government was not able to generate sufficiently from internal sources such as taxation. The income from public sector undertakings was also not very high to meet the growing expenditure.

At times, our foreign exchange, borrowed from other countries and international financial institutions, was spent on meeting consumption needs. Neither was an attempt made to reduce such profligate spending nor sufficient attention was given to boost exports to pay for the growing imports.

When expenditure is more than income, the Government borrows to finance the deficit from banks and also from people within the country and from international financial institutions. In late 1980s, government expenditure began to exceed its revenue by such large margins that meeting the expenditure through borrowings became unsustainable. Prices of many essential goods rose sharply. Imports grew at a very high rate without matching growth of exports. Foreign Exchange Reserves declined to a level that was not adequate to finance imports for more than 2 weeks. There was also not sufficient foreign exchange to pay the interest that needed to be paid to international lenders.

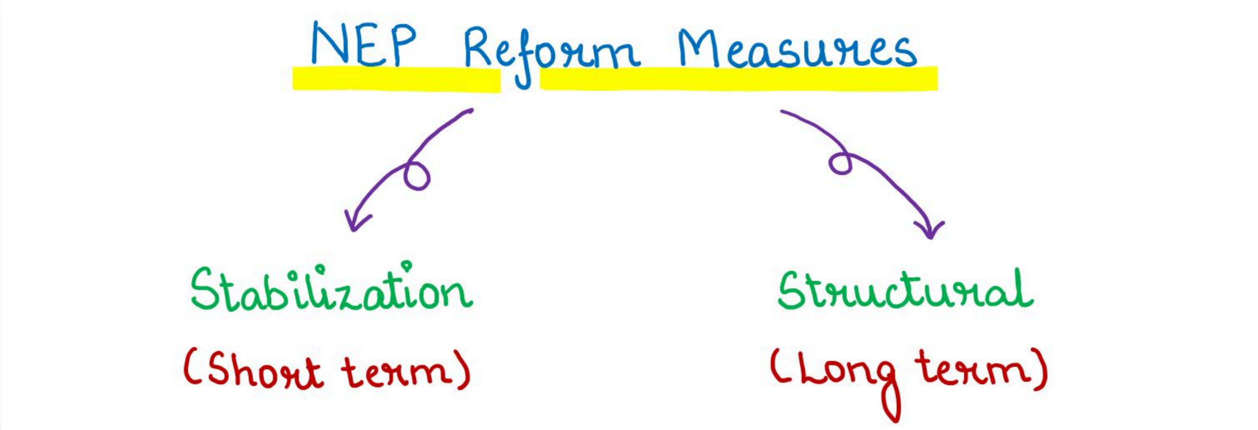
Some of the main causes of the economic crisis in India in 1991 are given below.

- **External Debt:** One of the main causes of the crisis was the increasing external debt of the country. The government had been borrowing heavily from abroad to finance its development plans, leading to a large foreign debt burden.
- **Balance of Payments Crisis:** The country was experiencing a severe balance of payments crisis, with the foreign exchange reserves of the country depleting rapidly. This was due to the high levels of imports, especially of essential items like oil, which could not be substituted domestically.
- **Inflation:** Inflation had been a persistent problem in the Indian economy, with the prices of essential goods and services rising continuously. This put pressure on the government to increase subsidies and welfare measures, leading to a further strain on the fiscal deficit.
- **Fiscal Deficit:** The fiscal deficit of the government had been increasing over the years, due to the high levels of government spending on subsidies, social welfare programs, and public sector enterprises. This led to a further strain on the country's resources.
- **Inefficient Public Sector:** The public sector in India was highly inefficient, with most state-owned enterprises running at a loss. This put a strain on the government's resources and contributed to the overall economic crisis.
- **Lack of Foreign Investment:** The country was not attracting enough foreign investment, and the inflow of foreign capital had been stagnant for a long time. This was due to the restrictive policies of the government, which made it difficult for foreign companies to do business in India.

- **Trade Barriers:** The country had several trade barriers and restrictions, which limited the ability of companies to import and export goods. This made it difficult for companies to compete globally and hindered the growth of the Indian economy.

---

8. New Economic Policy 1991



As a result of Economic Crisis, India approached the International Bank for Reconstruction and Development (IBRD) (part of World Bank) and the International Monetary Fund (IMF) and received $7 billion as loan to manage the crisis. For availing the loan, these international agencies expected India to liberalize and open up the economy by removing restrictions on the private sector, reducing the role of Government in many areas and removing trade restrictions between India and other countries.

India agreed to the conditionalities of World Bank and IMF and announced the New Economic Policy (NEP). The NEP consisted of wide ranging economic reforms. The thrust of the policies was towards creating a more competitive environment in the economy and removing the barriers to entry and growth of firms. This set of policies can broadly be classified into 2 groups: stabilization measures and structural reform measures.

1. **Stabilization Measures** are short-term measures, intended to correct some of the weaknesses that have developed in the balance of payments and to bring inflation under control. In simple words, this means that there was a need to maintain sufficient foreign exchange reserves and keep the rising prices under control.
2. On the other hand, **Structural Reform Measures a**re long-term measures, aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the rigidities in various segments of Indian economy. For this, the Government initiated a variety of policies which fall under 3 heads – Liberalization, Privatisation and Globalization.

The details related to LPG are discussed next.

---

9. Liberalisation

Before New Economic Policy, rules and laws which were aimed at regulating the economic activities became a major hindrance in growth and development. As a result, liberalization was introduced to put an end to these restrictions and open various sectors of the economy. Given below are some important areas which received greater attention in and after 1991:

1. Deregulation of Industrial Sector

In India, regulatory mechanisms were enforced in various ways:

- industrial licensing under which every entrepreneur had to get permission from Government officials to start a firm, close a firm, or decide the amount of goods that could be produced,
- private sector was not allowed in many industries,
- some goods could be produced only in small-scale industries, and
- controls on price fixation and distribution of selected industrial products.

The reform policies introduced in and after 1991 removed many of these restrictions. Industrial licensing was abolished for almost all but product categories — alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and pharmaceuticals. The only industries which are now reserved for the public sector are a part of defence equipment, atomic energy generation and railway transport.

2. Financial Sector Reforms

Financial sector includes financial institutions, such as commercial banks, investment banks, stock exchange operations and foreign exchange market. The financial sector in India is majorly regulated by the Reserve Bank of India (RBI).

One of the major aims of financial sector reforms is to shift the role of RBI from regulator to facilitator of financial sector. This means that the financial sector may be allowed to take decisions on many matters without the reform policies that led to establishment of private sector banks, Indian as well as foreign. Those banks which fulfill certain conditions have been given freedom to set up new branches without the approval of RBI and rationalize their existing branch networks. Foreign Institutional Investors (FII), such as merchant bankers, mutual funds and pension funds, are now allowed to invest in Indian financial markets.

3. Tax Reforms

Tax reforms are concerned with reforms in the Government's taxation and public expenditure policies, which are collectively known as its fiscal policy. There are 2 types of taxes - direct taxes and indirect taxes.

1. **Direct taxes** consist of taxes on incomes of individuals, as well as profits of business enterprises. Since 1991, there has been a continuous reduction in the taxes on individual incomes as it was felt that high rates of income tax were an important reason for tax evasion. It is now widely accepted that moderate rates of income tax encourage savings and voluntary disclosure of income.
2. **Indirect taxes** are the taxes levied on commodities, in order to facilitate the establishment of a common national market for goods and commodities.

In 2016, the Parliament of India passed **Goods and Services Tax Act**, to simplify and introduce a unified indirect tax system in India. The law came into effect in July 2017. It replaced multiple indirect taxes such as excise duty, service tax, and Value-Added Tax (VAT), among others. The main objective of the GST Act is to create a unified tax system throughout India, reducing the complexity of indirect taxes that previously varied across different states and regions. The GST also aims to simplify the process of paying taxes and reduce the burden of tax compliance for businesses.

4. Foreign Exchange Reforms

The first important reform in the external sector was made in the foreign exchange market. In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to an increase in the inflow of foreign exchange. It also set the tone to free the determination of rupee value in the foreign exchange market from Government control. Now, more often than not, markets determine exchange rates based on demand and supply of foreign exchange.

5. Trade and Investment Policy Reforms

Liberalisation of trade and investment regime was initiated to increase international competitiveness of industrial production and also encourage foreign investments and technology into the economy. The aim was also to promote the efficiency of local industries and adoption of modern technologies. In order to protect domestic industries, India was following a regime of quantitative restrictions on imports. This was encouraged through tight control over imports and by keeping tariffs very high. These policies reduced efficiency and competitiveness which led to slow growth of the manufacturing sector.

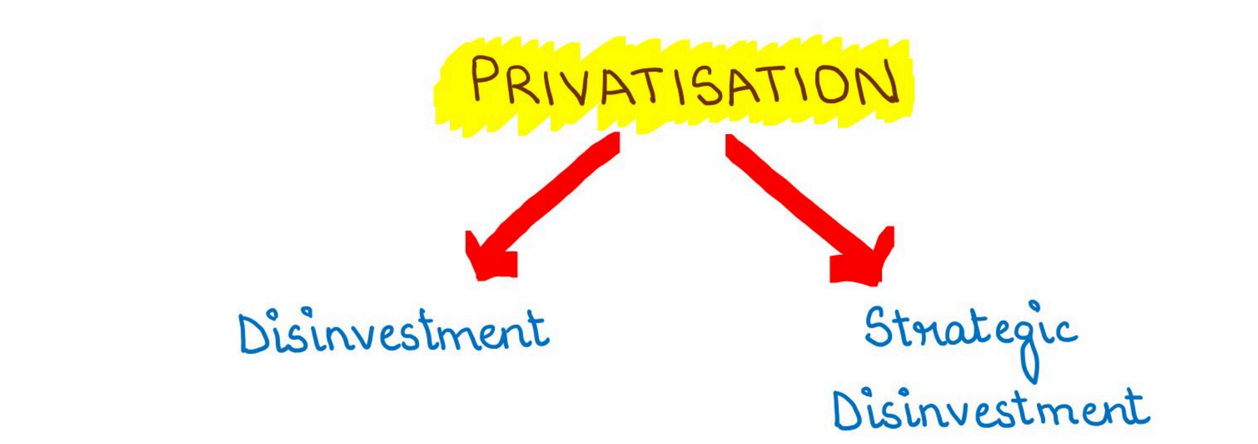
The trade policy reforms aimed at:

- dismantling of quantitative restrictions on imports and exports,
- reduction of tariff rates, and
- removal of licensing procedures for imports.

Import licensing was abolished except in case of hazardous and environmentally sensitive industries. Export duties have been removed to increase the competitive position of Indian goods in international markets.

---

10. Privatisation



Post-independence, India adopted a mixed economy model. In this context, the Public Sector Enterprises (PSEs) were established on a socialistic pattern of development. Apart from that, there was a need to create adequate infrastructural facilities which served as the most important consideration leading to the expansion of the PSEs. However, due to poor performance of several PSEs and consequent huge fiscal deficits, the policy of privatisation has come to the forefront. Privatization implies shedding of ownership or management of a Government owned enterprise. Privatisation is ought to infuse efficiency by bringing PSEs to competition in the market.

Objectives

The primary objectives of privatizing Public Sector Enterprises are:

- Releasing large amount of public resources locked up in non-strategic Public Sector Enterprises (PSEs), so that, they may be utilized on other social priority areas such as basic health, family welfare and primary education.
- Reducing the huge amount of public debt and interest burden.
- Transferring commercial risk to private sector so that funds are invested in able projects.
- Freeing these enterprises from government control and introduction of corporate governance.
- In many areas where the public sector had a monopoly, for example, telecom sector, the consumers have benefitted by more choices, lower prices and better quality of products and services.
- Improving the inflow of Foreign Direct Investment (FDI) or investment in sectors that require technological advancements, thereby, directly providing a boost to the economy.

---

10. Privatisation

Privatization in India can be done through 2 ways - Disinvestment & Strategic Disinvestment.

1. **Disinvestment:** Privatisation of Public Sector Enterprises by selling off part of the equity of Public Sector Enterprises to the public is known as 'Disinvestment'. In the NEP, Government used Disinvestment for following reasons:

- to improve financial discipline and facilitate modernization.
- it envisaged that private capital and managerial capabilities could be effectively utilized to improve the performance of PSUs.
- it could provide strong impetus to the inflow of FDI.

2. **Strategic Disinvestment:** 'Strategic disinvestment' is transfer of ownership and control of a public sector entity (strategic sale) to some other entity (mostly to a private sector entity). It is guided by the basic economic principle that the Government should discontinue its engagement in manufacturing/producing goods and services in sectors where the competitive markets have come of age, and such entities would most likely perform better in the private hands due to various factors, e.g., technology up-gradation and efficient management practices; and would, thus, add to GDP of the country.

The Disinvestment Commission (1996-2004) defines **strategic sale** as the sale of a substantial portion of Government shareholding of a Central Public Sector Enterprises (CPSE) of upto 50%, or such higher percentage as the competent authority may determine, along with transfer of management control. Department of Investment and Public Asset Management (DIPAM) is the nodal Department for strategic stake sale in Public Sector Undertakings (PSUs).

10. Privatisation

In India, PSEs hold key position in sectors like petroleum, banks, coal, power, steel and mining such as SBI in Banking sector, LIC in Life Insurance, Coal India Limited in coal sector and others. However, privatization of PSEs in India has been beneficial as well as challenging. India's experience with privatization can be discussed as below:

- India's attempt at dismantling the PSUs over the years has seen little success, with the last big-ticket privatization taking place between 1999 and 2004.
- Since then, most governments have tried to disinvest and privatize. But this has led only to incremental progress, with no big-ticket privatization taking place since then. A good example is Air India, the national carrier that the Centre has repeatedly tried to privatize. However, it has met with limited success.
- Stiff opposition from unions, concerns of allegations of graft and criticism of the sale of "family silver" act as major hurdles to the drive for privatization.
- A good example of privatization and its effect on the enterprise is Hindustan Zinc. The Atal Bihari Vajpayee-led BJP government sold 45% of Hindustan Zinc in 2002. The 30% stake the government retained was valued at thousands of crores. The company became the world's second-largest zinc-lead miner and one of the top 10 silver producers. Management change and privatization can thus raise shareholder wealth through improved efficiency.

Thus, privatization has proven to be beneficial for the economy of India. Most PSEs suffer losses and are funded by the largesse of taxpayers. If privatized, the public resources spent on them could be better utilized elsewhere, especially for development. Selling PSEs can also yield non-tax revenue, which could be used to augment public infrastructure. Moreover, their turnaround by the private sector can generate tax revenue for the government.

On the other hand, the policy of privatization in India has witnessed various challenges. Privatization has been criticized on various grounds, which can be mentioned as below:

- Process is not favoured socially as it is against the interest of socially disadvantageous people.
- Government has mostly used privatization for fiscal reasons rather than growth objectives.
- Loss-making units don't attract investment so easily.
- Over the years, the policy has increasingly become a tool to raise resources to cover the fiscal deficit with little focus on market discipline or strategic objective.
- Sometimes with the emergence of private monopolies, consumer welfare will be reduced.
- It is argued that mere change of ownership, from the public to private, does not ensure higher efficiency and productivity.
- It may lead to retrenchment of workers who will be deprived of the means of their livelihood.
- The private sector, governed as they are by the profit motive, has a tendency to use capital-intensive techniques which will worsen the unemployment problem in India.

Corporatization

The policy of 'Privatisation' should not be confused with 'corporatization'. There is a difference between the two. Corporatization allows the government to retain ownership of the company while allowing the company to run as efficiently as its private counterparts. But, under privatisation, the government ceases to be the owner of the company. Corporatization is often applied to utilities such as electricity or water providers. In corporatized companies, the government is the only shareholder, and the shares in the company are not publicly traded. Thus, the aim of corporatization is to create enterprises with independent managers who are expected to account for the business as though they were operating a stand-alone company.

10. Privatisation

National Investment Fund (NIF) was constituted in November 2005. It was set up for proceeds from disinvestment of Central Public Sector Enterprises. Selected Public Sector Mutual Funds, namely UTI Asset Management Company Ltd., SBI Funds Management Private Ltd. and LIC Mutual Fund Asset Management Company Ltd. were entrusted with the management of the NIF corpus. As per this Scheme, 75% of annual income of NIF was to be used for financing selected social sector schemes which promote education, health and employment. The residual 25% of the annual income of NIF was to be used to meet the capital investment requirements of profitable and revivable PSUs. It is a 'Public Account' under the Government Accounts and the funds would remain there until withdrawn/invested for the approved purposes.

The NIF would be utilized for the following purposes:

- Subscribing to shares being issued by the CPSE, on rights basis, so as to ensure that 51% ownership of the Government in CPSEs is not diluted.
- Preferential allotment of shares of the CPSE to promoters as per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 so that Government shareholding does not go below 51% in all cases where the CPSEs desire to raise fresh equity to meet their Capex programme (Capital Expenditure).
- Recapitalization of public sector banks and public sector insurance companies, so as to strengthen them by further capital infusion towards achieving the Basel III norms.

The Government further approved inclusion of following purposes also, to be financed from the NIF (since February 2013):

- Investment by Government in RRBs/IIFCL/NABARD/Exim Bank
- Equity infusion in various Metro projects
- Investment in Bhartiya Nabhikiya Vidyut Nigam Limited and Uranium Corporation of India Ltd.
- Investment in Indian Railways towards capital expenditure.

11. Globalisation

Globalisation is the process of rapid integration or interconnection between countries. It is an outcome of a set of various policies that are aimed at transforming the world towards greater interdependence and integration. It involves creation of networks and activities transcending economic, social and geographical boundaries.

Globalisation is a multi-dimensional concept. It has political, economic and cultural manifestations. The MNCs are playing a major role in the Globalisation process. More and more goods and services, investments, people, ideas and technology are moving between countries. Thus, it would be wrong to assume that Globalisation has purely economic dimensions.

Some of the positive impacts of Globalisation are given below:

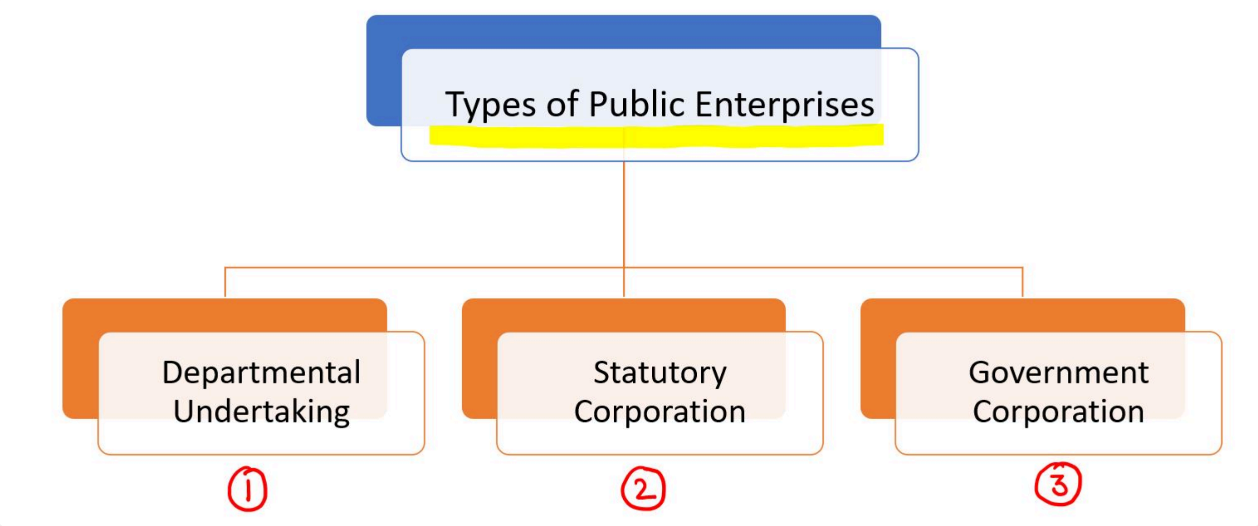
- **Access to Goods and Services:** Globalisation results in increased trade and standard of living. It heightens competition within the domestic product, capital, and labour markets, as well as among countries adopting different trade and investment strategies. It has also resulted in national capital markets becoming increasingly integrated.
- **Vehicle of Social Justice:** Transnational companies investing in installing plants in other countries provide employment for people in those countries often getting them out of poverty. Globalisation represents free trade which promotes global economic growth, creates jobs, makes companies more competitive, and lowers prices for consumers.
- **Increases Cultural Awareness:** By reducing cross-border distances, globalisation has increased cross-cultural understanding and sharing. A neutral globalised society boosts up the rate at which people are exposed to the culture, attitudes and values of people in other countries.
- **Sharing Technology and Values:** It also provides poor countries, through infusions of foreign capital and technology, with the chance to develop economically and by spreading prosperity.

11. Globalisation

Outsourcing is one of the important outcomes of the globalisation process for India. In outsourcing, a company hires regular service from external sources, mostly from other countries, which was previously provided internally or from within the country like computer services, advertisements etc. As a form of economic activity, outsourcing has intensified, in recent times, because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). Many of the services such as voice-based business processes (popularly known as BPO or call centres), record keeping, accountancy, banking services or even teaching are being outsourced by companies in developed countries to India, where they can avail labour at a cheaper cost with reasonable degree of skill and accuracy. The low wage rates and availability of skilled manpower in India have made it a destination for global outsourcing in the post-reform period.

12. Pulic Enterprises

The public sector consists of various organisations owned and managed by the Government. These organisations may either be partly or wholly owned by the Central or State Government. They may also be a part of the ministry or come into existence by a Special Act of the Parliament. The government, through these enterprises, participates directly in the economic activities of the country.



Types

A public enterprise may take any particular form of organisation depending upon the nature of its operations and their relationship with the Government. The suitability of a particular form of organisation would depend upon its requirements. The forms of organisation which a public enterprise may take are as follows:

1. **Departmental Undertaking:** These enterprises are established as departments of the Ministry and are considered part or an extension of the Ministry itself. The Government functions through these departments and the activities performed by them are an integral part of the functioning of the government. These undertakings may be under the central or the state government and the rules of central/state government are applicable. Examples of these undertakings are railways, post and telegraph department etc.

2. **Statutory Corporation:** Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament. The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments. It is a corporate person and has the capacity of acting in its own name.

3. **Government company:** A Government company is established under the Companies Act, 2013 and is registered and governed by the provisions of the Act. These are established for purely business purposes and in true spirit, compete with companies in the private sector. According to Section 2(45) of the Companies Act, 2013, a government company means any company in which not less than 51% of the paid up capital is held by the Central government, or by any State government or partly by Central government and partly by one or more State governments and includes a company which is a subsidiary of a Government company.

From the above, it is clear that the Government exercises control over the paid up share capital of the company. The shares of the company are purchased in the name of the President of India. Since the Government is the major shareholder and exercises control over the management of these companies, they are known as government companies.

12. Pulic Enterprises

Some of the reasons of setting up Public Sector Undertakings are discussed next.

1. Development of infrastructure

In the pre-Independence period, basic infrastructure was not developed and therefore, industrialisation progressed at a very slow pace. The process of industrialisation cannot be sustained without adequate transportation and communication facilities, fuel and energy, and basic and heavy industries. It was only the Government which could mobilise huge capital, coordinate industrial construction and train technicians and workforce. Rail, road, sea and air transport was the responsibility of the Government, and their expansion has contributed to the pace of industrialisation and ensured future economic growth.

2. Regional balance

After 1951, the Government laid down in its Five Year Plans, that particular attention would be given to those regions which were lagging behind and public sector industries were deliberately set up there. For example, 4 major steel plants were set up in the backward areas to accelerate economic development, provide employment to the workforce and develop ancillary industries.

3. Economies of scale

Where large scale industries are required to be set up with huge capital outlay, the public sector had to step in to take advantage of economies of scale. Electric power plants, natural gas, petroleum and telephone industries are some examples of the public sector setting up large scale units. These units required a larger base to function economically which was only possible with Government resources and mass scale production.
Check over concentration of economic power

The public sector acts as a check over the private sector. In the private sector, there are very few industrial houses which would be willing to invest in heavy industries with the result that wealth gets concentrated in a few hands and monopolistic practices are encouraged. This gives rise to inequalities in income, which is detrimental to society.

4. Import substitution

During the second and third Five Year Plan period, India was aiming to be self-reliant in many spheres. Obtaining foreign exchange was also a problem and it was difficult to import heavy machinery required for a strong industrial base. At that time, public sector companies involved in heavy engineering, which would help in import substitution, were established.

---

12. Pulic Enterprises

Some of the challenges in functioning of Public Sector Undertakings (PSUs) are listed below:

- Poor policy making at management level and its execution.
- Inappropriate investment decisions by senior management at PSUs.
- There are very high operating costs.
- Managers are better monitored in the private sector than in the public sector. There are no robust performance management methods at PSUs.
- A relative lack of autonomy in commercial matters leads to inferior performance at many PSUs.
- There is undue influence in decision making from the Government.
- Employees are not motivated to perform and there is hardly any incentive for better performers.
- Usually, PSUs are overstaffed.
- There is wastage or under-utilization of resources.
- Excessive trade unionism.

12. Pulic Enterprises

In order to improve efficiency, infuse professionalism and enable them to compete more effectively in the liberalised global environment, the government identifies certain PSEs and declare them as Maharatnas, Navratnas and Miniratnas. They were given greater managerial and operational autonomy, in taking various decisions to run the company efficiently and, thus, increase their profits.

Many of these profitable PSEs were originally formed during the 1950s and 1960s when self-reliance was an important element of public policy. They were set up with the intention of providing infrastructure and direct employment to the public so that quality end-product reaches the masses at a nominal cost and the companies themselves were made accountable to all stakeholders. The granting of status resulted in better performance of these companies.

The criteria laid down by the Government for grant of Maharatna, Navratna and Miniratna status to Central Public Sector Enterprises (CPSEs) is given below:

1. Criteria for grant of Maharatna status to CPSEs

The CPSEs, meeting the following criteria, are eligible to be considered for grant of Maharatna status:

- Having Navratna status,
- Listed on Indian stock exchange with minimum prescribed public shareholding under SEBI regulations,
- An average annual turnover of more than Rs. 25,000 crores during the last 3 years,
- An average annual net worth of more than Rs. 15,000 crores during the last 3 years,
- An average annual net profit after tax of more than Rs. 5,000 crores during the last 3 years,
- Should have significant global presence/international operations.

2. Criteria for grant of Navratna status to CPSEs

The CPSEs which are Miniratna I, Schedule 'A' and have obtained 'excellent' or 'very good' MOU rating (Memorandum of Understanding rating) in 3 of the last 5 years and having composite score of 60 or above in 6 selected performance indicators (Net Profit to Net worth, PBDIT to Capital employed, Earning Per Share etc.) are eligible to be considered for grant of Navratna status.

3. Criteria for grant of Miniratna status to CPSEs

Miniratna status is divided into 2 categories:

- **Miniratna Category-I status:** The CPSEs which have made profit in the last 3 years continuously, pre-tax profit is Rs. 30 crores or more in at least one of the three years and have a positive net worth, are eligible to be considered for grant of Miniratna-I status.
- **Miniratna Category-II status:** The CPSEs which have made profit for the last 3 years continuously and have a positive net worth are eligible to be considered for grant of Miniratna-II status.

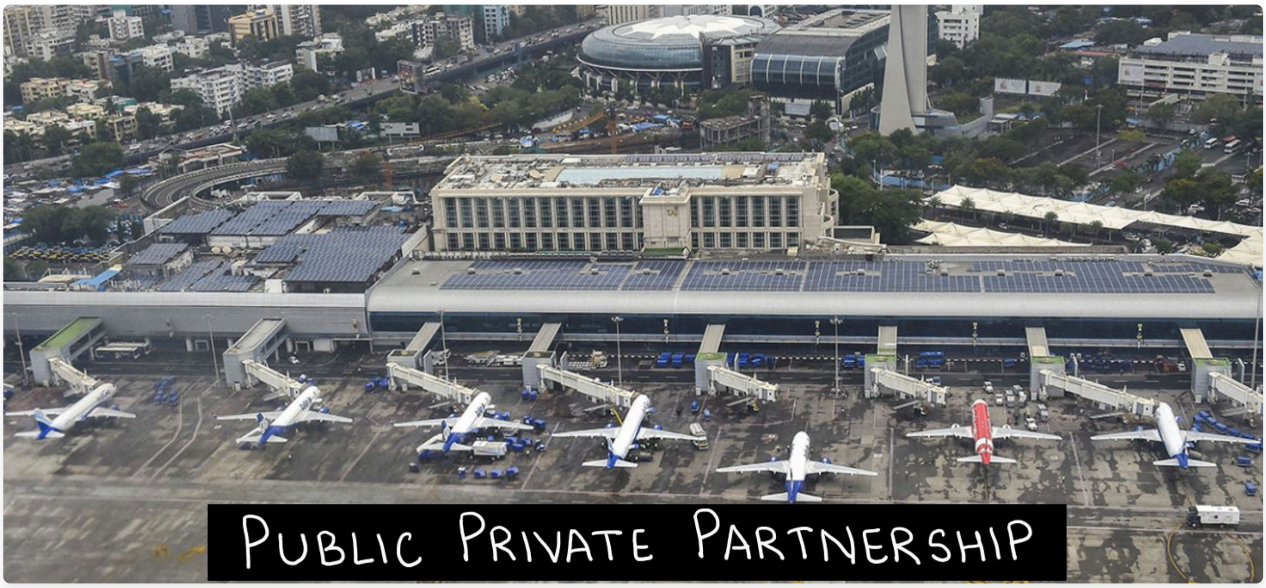
Also, Miniratna CPSEs should have not defaulted in the repayment of loans/ interest payment on any loans due to the Government. In addition, Miniratna CPSEs shall not depend upon budgetary support or Government guarantees.

List of Maharatna and Navratna CPSEs in India are given below.

› List of Maharatna CPSEs in India

› List of Navratna CPSEs in India

13. Public-Private Partnership (PPP)



The Public-Private Partnership (PPP) Model is designed to distribute tasks, obligations, and risks between public and private partners in an optimal manner. The public partners in PPPs are government entities, such as ministries, government departments, municipalities, or state-owned enterprises, while the private partners can be local or foreign businesses or investors with technical or financial expertise relevant to the project. NGOs and community-based organizations directly affected by the project are also included in PPPs. This model is defined as a relationship between public and private entities for infrastructure and service-related projects.

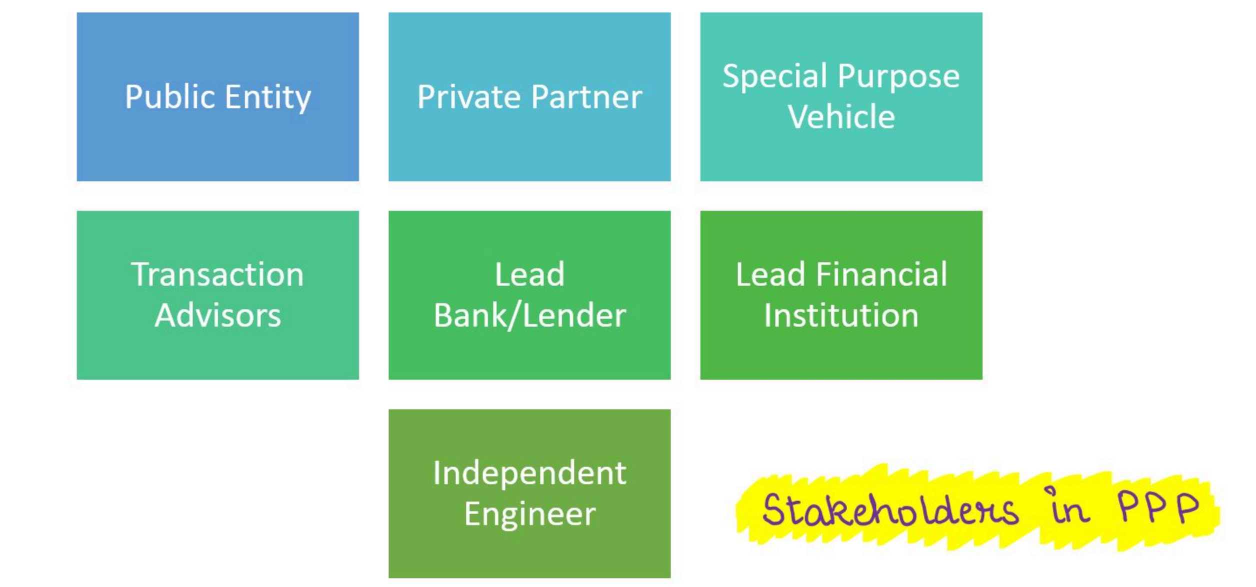
In PPPs, the public sector plays an important role in ensuring that social obligations are fulfilled, sector reforms and public investments are successfully implemented, and capital is provided for investment and transfer of assets that support the partnership. The private sector's role is to utilize its expertise in operations, managing tasks, and innovation to efficiently run the business.

PPPs are an arrangement between the public entity and the private partner for infrastructure development or service delivery. Under traditional construction contracts, the private sector bears only the design and construction risk, while under PPPs, they may bear other risks related to financing, demand, and operations, depending on the risk-sharing mechanism between the public entity and the private partner.

PPPs have been utilized in a variety of sectors worldwide, including power generation and distribution, water and sanitation, refuse disposal, pipelines, hospitals, school buildings and teaching facilities, stadiums, air traffic control, prisons, railways, roads, billing and other information technology systems, and housing.

13. Public-Private Partnership (PPP)

The key parties to a PPP arrangement are the public entity (Government) and the private partner. In addition to the public entity and the private partner, there are several other stakeholders who are associated with PPP projects.



Major Stakeholders in PPP are described below.

1. Public entity means all Governments Departments & Directorates, Government sponsored boards, societies, Municipal or Local Bodies, Panchayats, Government sponsored education, research and knowledge management institutions, Public Sector Undertakings, Government owned companies, statutory authority and other entities, which are under the administrative control of the State Government.

2. Private partner includes any entity other than the Public entity.

3. Concessionaire refers to the private partner awarded the tender for the implementation of the PPP project.

4. Special Purpose Vehicle (SPV) is an entity created to act as the legal manifestation of a project consortium, with no historical financial or operating record which Government can assess. An SPV is a legal entity with no activity other than those connected with its borrowing. Typically, a private partner forms a special company called a “Special Purpose Vehicle” (SPV) which contracts with Government. The objective of SPV is to develop, build, maintain and operate the asset for the contracted period. In cases where the Government has invested in the project, it is typically (but not always) allotted an equity share in the SPV. The consortium is usually made up of a Developer, Operator and bank lender(s). It is the SPV that signs the contract with the Government and with subcontractors to build the facility and then maintain it.

5. Transaction Advisors (TA) are consultants hired through a transparent system of procurement by the sponsoring authorities to assist them in designing the project and/or providing technical, financial and legal inputs for the project design, and providing advice for the management of process of procuring the private sector partner for the PPP project.

6. Lead Bank/ Lender is the Financial Institution (FI) that is funding the infrastructure project by providing debt to an extent not less than 25% of the total project debt and designated as such by an inter-institutional group or consortium of financial institutions.

7. Lead Financial Institution means the FI that is funding the PPP project, and in case there is a consortium of FIs, the FI designated as such by the consortium.

8. Independent Engineer is a consultant appointed for supervision and monitoring quality of the project (different from TA). Usually, an independent consultant is appointed after the project has been awarded and the concession agreement has been signed. The Independent Engineer ensures that the project work goes as per schedule and as per the quality criteria specified in the agreement.

13. Public-Private Partnership (PPP)

Advantages

PPP arrangements result in many advantages to the public entities. The advantages of PPPs to the public entities are as follows:

1. Higher Efficiency in the Private Sector

The private sector is exposed to competitive pressures that are difficult to replicate for public agencies. This provides a private partner, an edge in efficiency in carrying out the capital (design, construction) and operating phases of the project. For infrequent or new projects, the private sector can also have more recent experience and leading technical skills. The private sector is also well placed to access quality and skilled manpower and technology and hold its employees, suppliers and vendors more accountable to performance; whereas for a public entity it is difficult to perform in a similar manner.

2. PPPs Focus on Life Cycle Costs of Projects

PPPs focus on life cycle costs of the project in which the private partner designs the project to take account of the link between construction and operation so that the cost will be minimized over the project's lifetime. A private partner, in addition, to designing and building the project, will also provide the ongoing operations and maintenance management and so has an incentive to ensure that the design and construction facilitate efficient Operations and Maintenance (O&M). By contrast, if one set of contractors is employed for design and construction and other unrelated contractors for O&M, they will each take a narrow perspective, considering only the point efficiencies in their component and not taking account of the interactions between the two.

3. Increased Transparency & Accountability

In PPPs, there is a clear allocation of risks and responsibilities, wherein, the role of the public entity is to monitor service provision and the private partner is responsible for actual delivery of services. This increases the scope for accountability of the private partner, as opposed to the conventional procurement where the public entity is both the monitoring agency as well as the service provider and, therefore, may be reluctant to question itself. Furthermore, completion of construction is a contractual end in conventional projects whereas in PPPs, there is generally no exit after construction (for a specified period of time) and, therefore, the private partner is bound to ensure service delivery in a transparent manner. Thus, PPPs lead to increased transparency and accountability in both utilization of funds as well as quality of service delivery.

4. Access to Private Sector Finance

PPPs allow the public entity to leverage private finances in development of public infrastructure projects. In doing so, the public entity would be able to focus more on social and other sectors which require more funding and support in comparison with the core infrastructure projects. Development of projects under PPP framework also frees the public entity from the need to meet financing requirements from its own revenues (taxes) or through borrowing.

Disadvantages

Despite the benefits associated with development of projects under PPP framework, there are certain limitations to PPP arrangements which are discussed herein below.

1. Complex Procurement Process with Associated High Transaction Costs

The PPP project must be clearly specified, including the allocation of risk and a clear statement of the service output requirements. The long-term nature of PPP contracts requires greater consideration and specification of contingencies in advance. Transaction advisors and other consultants would need to be appointed to assist the public entity to handle the challenges involved in project structuring and procurement process. On the other hand, the public entity finds it less complex to carry out conventional procurement because it is accustomed to this arrangement where a well-established procedure has been in place for a long time.

2. Enforcement and Monitoring

Once it enters the construction and operation phases, the success of the PPP, from the public perspective, will depend on the ability of the public entity to monitor performance of the private partner against standards and to enforce the terms of the contract. When a PPP project performs below its expectations, it is often due to the lack of capabilities in the public entities to carry out enforcement and monitoring activities, partly, because it has inadequate established procedures for this task.

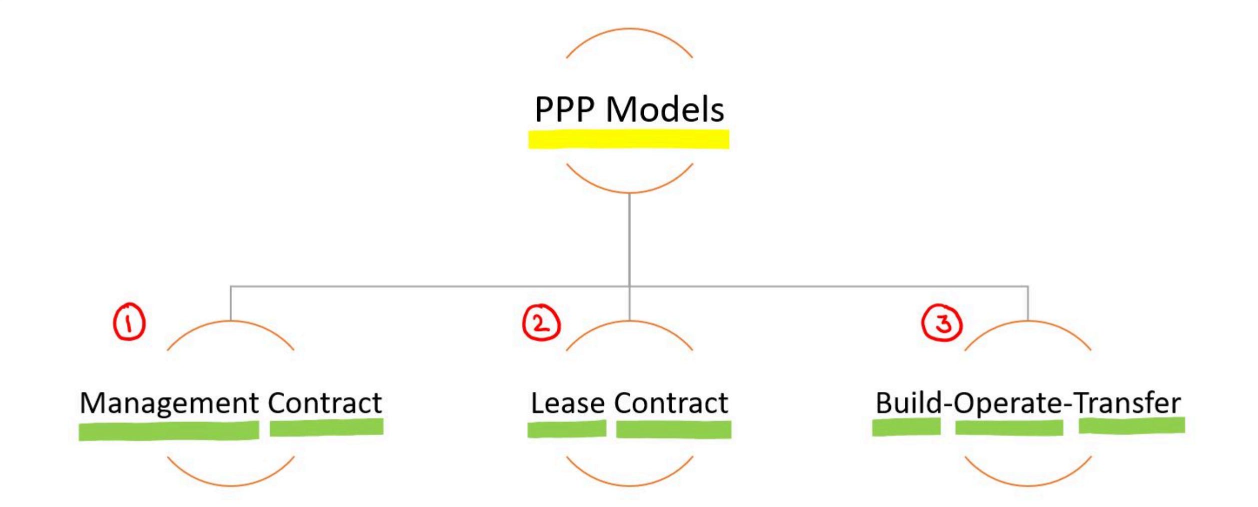
3. Other Factors

In addition to these limitations, there are other factors that deter the development of projects through a PPP framework. For instance, most of the legislation and rules were formulated at a time when PPPs were not yet conceptualized. The law is, consequently, usually silent on the possibility of PPPs in the sector. Furthermore, Government budgeting systems are usually not aligned with the needs of PPP financing and support as they do not make any provisions for committed and/or contingent liabilities arising out of PPP arrangements. Also, the lead time for structuring and procurement for PPPs is long, which impacts the ability to see through a PPP without leadership changes. This challenges the commitment of the public entity towards project development activities.

Most of the limitations can be minimized under certain circumstances and through careful management of the PPP design, by the public entity that is sponsoring the project. This requires the public entity to have the capacity (experience and expertise) to manage the PPP process.

14. PPP Models

Public-Private Partnership arrangements are characterised by the identification of risks and their allocation among the parties to the arrangement. On the basis of risk allocation, various PPP models are designed. Many variants of PPP models are implemented across different projects essentially differentiated on the basis of the risk allocation framework employed within these projects.



Given next are the basic PPP models that are prevalent in project development.

14. PPP Models

The key feature of a management contract is that the public entity engages a private partner to manage a range of activities for a relatively short duration (few months to few years). Management contracts are task specific and tend to focus on inputs rather than outputs. In such contracts, the ownership of assets and investments typically remains with the public entity, although some rehabilitation responsibilities can be transferred to the private partner.

There are contractual arrangements for the management of a part or whole of a public facility or service by the private sector. Capital investment is typically not the primary focus in such arrangements.

There may be some variations like:

- It can be a basic management-for-fee contract where all volume and future value risk is retained by the public entity.
- It can be a management contract with performance incentives related to cost and quality. Here, some risk, such as volume risk, is retained by the contractor.
- It can be a management and finance contract with some rehabilitation and expansion. Here, the contractor takes the financial and management risks for a volume incentive.
- These are prevalent in India across sectors, e.g., Karnataka Urban Water Supply and Improvement Project, performance based maintenance contracts in highways.

---

14. PPP Models

In a lease contract, the asset is leased, by the public entity to the private partner. Lease contracts are usually of medium term length (10-15 years) and may involve capital investment by the private partner. Such arrangements are usually observed in water supply contracts where the collection risk is transferred to the private partner. Usually, the private partner in such cases would require an assurance in terms of tariff levels, increases over term of lease and compensation and review mechanism, in case, the tariff levels do not meet the estimates.

In this arrangement, the private partner does not receive a fixed fee for his services from the public entity but charges a user fee to consumers. For this, a portion of the receipts goes to the public entity as the owner of the assets as a lease fee and the remainder is retained by the private partner.

There might be some variations like Build Lease Transfer (BLT) or Build-Own-Lease-Transfer (BOLT).

An example is leasing of retail outlets at railway stations by Indian Railways.

---

14. PPP Models

Under this category, the private partner is responsible to design, build, operate and transfer back the facility to the public sector. The private sector partner is expected to bring the finance for the project and take the responsibility to construct and maintain it. The public sector will either pay a rent for using the facility or allow it to collect revenue from the users. The national highway projects contracted out by NHAI under PPP model is an example of this model.

Build Operate Transfer (BOT) typically relates to greenfield asset developments where risk allocation to the private sector may be significant, including volume risk, finance risk and potentially price risk.

A number of BOT variants are possible depending on the allocation of roles and risk. These include the following:

- **Design-Build-Finance-Operate-Transfer (DBFOT)** contract is where the private sector designs, finances and constructs a new facility under a long-term lease, and operates the facility during the term of lease. The facility is transferred back to the public entity at the end of lease term. It is the most common form of BOT concession in India. Some examples are Nhava Sheva International Container Terminal, Amritsar Interstate Bus Terminal, Delhi Gurgaon Expressway, Hyderabad Metro, Salt Lake Water Supply etc.
- **Build-Own-Operate-Transfer (BOOT)** contract is where the facility / project built under PPP will be transferred back to the government department or agency at the end of the contract period, generally at the residual value and after the private partner recovers its investment and reasonable return agreed to, as per the contract. The only difference of BOOT from BOT is that here (in case of BOOT), the ownership is with the private partner for the duration of the concession. An example is Greenfield minor port concessions in Gujarat. It's another version is Build-Own-Operate (BOO), which is not very common in India.
- **Buy-Build-Operate (BBO)** involves the transfer of a public asset to a private or quasi-public entity usually under contract, that the assets are to be upgraded and operated for a specified period of time. Public control is exercised through the contract at the time of transfer.

BOT type arrangement is different from concession. A concession means a bundle of rights which may be transferred from the public entity to the private partner as part of the PPP arrangement. It generally involves extensions to and operation of existing systems, whereas a BOT generally involves large "greenfield" investments requiring substantial outside finance, for both equity and debt. Responsibility for construction (typically brownfield / expansions) and operations is held by the private partner while ownership is retained by the public sector.

It is to be noted that the level of project related risk which is transferred from the public entity to the private partner increases from a vanilla management/ service contract to a BOT contract. For instance, in the service contract which is more akin to outsourcing, only a portion of the O&M risk is transferred to the private partner whereas in a management contract, the entire O&M risk including revenue risk is transferred to the private partner. In both cases, the design, finance and construction risk along with the ownership of assets remains with the public entity.

In a lease, the public entity transfers the design and O&M risk along with a portion of financing and construction risk to the private partner. In such an arrangement, the private partner is expected to share a portion of the user fee collected from the consumers/ users as lease fee to the public entity. In both area concessions and BOT, almost every project related risk is transferred to the private partner; the ownership of assets at all times lies with the public entity. It is only in a BOO framework that the ownership of assets gets transferred to the private partner and in a BOOT (Build-Own-Operate-Transfer) framework, the ownership of assets gets transferred to the private partner for a certain time period.

1. Concept of Management

Management refers to the act of getting work done through others, with a focus on efficiency and effectiveness in the work process. *Efficiency* is defined as getting work done with the least amount of effort, expense, or waste, while *effectiveness* is defined as accomplishing tasks that fulfill organizational objectives, such as customer service and satisfaction.

People in organizations perform diverse tasks, but they all work towards a common goal. Management aims to guide these efforts towards achieving this goal, making sure that tasks are completed and goals are achieved with the least amount of resources at a minimum cost.

According to **Mary Parker Follett**, management can be defined as "the art of getting things done through people".

Similarly, **Henry Fayol** states that "to manage is to forecast and to plan, to organize, to command, to co-ordinate and to control".

The primary function of management is to get things done in a way that achieves goals effectively and efficiently. This is accomplished through a process of planning, organizing, staffing, directing, and controlling.

Management is considered both an art and a science. It is considered a science because it has an organized body of knowledge containing universal principles, while it is considered an art because managing requires certain personal skills. A successful manager must have knowledge of the science of management and the ability to apply it. This combination of knowledge and skills makes management both a science and an art, with science teaching managers what to know, and art teaching them how to do.

2. Levels of Managers

There are 4 types of managers, which can be explained as follows:

1. Top Managers

The Top managers have following responsibilities:

- Responsible for overall direction of the organization.
- Have to create a context for change.
- Must develop employees' commitment to and ownership of the company's performance.
- Have to create a positive organizational culture through language and action.
- Must monitor their business environment, including customer needs, competitors' moves, and long-term business, economic, and social trends.

Example: CEO, COO, CFO, and CIO

2. Middle Managers

The Middle Managers have following responsibilities:

- Responsible for setting objectives and implementing subunit strategies.
- Have to plan and allocate resources.
- Have to coordinate and link different groups, departments, and divisions within a company.
- Have to monitor and manage the performance of subunits and individual managers who report to them.
- Have to implement changes generated by top managers.

Example: Plant manager, regional manager, divisional manager

3. First-line Managers

The First Line Managers have following responsibilities:

- Responsible for managing the performance of entry-level employees.
- Encourage, monitor, and reward employee performance.
- Make schedules and operating plans based on intermediate plans of middle management.

Example: Office manager, shift supervisor, department manager

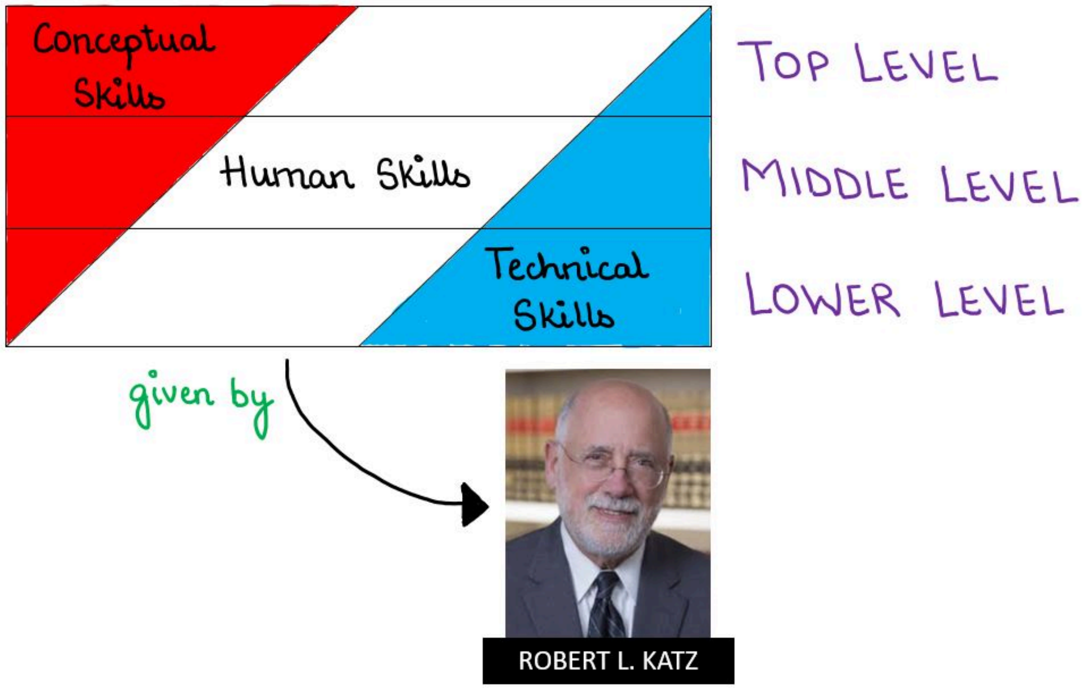
4. Team Leaders

The Team Leaders have following responsibilities:

- Facilitate team performance.
- Manage external relationships between teams, departments, and divisions.
- Manage internal team relationships.

Example: New management job in self-managing teams structures.

3. Skills of Manager



Managers, upon joining the managerial ranks of an organization, must possess certain skills that will enable them to perform their tasks successfully. Skill is an ability to translate knowledge into action that results in a desired performance.

Robert L. Katz suggests that 3 important managerial skills that must be cultivated and enhanced by the organization are technical, human, and conceptual. The degree of development a manager has in each of these three skills will have a strong impact not only upon the success of the organization but also upon the career success of the manager.

1. Technical Skills

Technical skills are those abilities that are necessary to carry out a specific task. Examples of technical skills are writing computer programs, completing accounting statements, analyzing marketing statistics, writing legal documents, or drafting a design for a new airfoil on an airplane. Technical skills are usually obtained through training programs that an organization may offer its managers or employees or may be obtained by way of a college degree.

2. Human Skills

Human skills involve the ability to work with, motivate, and direct individuals or groups in the organization whether they are subordinates, peers, or superiors. Human skills, therefore, relate to the individual's expertise in interacting with others in a way that will enhance the successful completion of the task at hand.

3. Conceptual Skills

Conceptual skills require an ability to understand the degree of complexity in a given situation and to reduce that complexity to a level at which specific courses of action can be derived. Examples of situations that require conceptual skills include the passage of laws that affect hiring patterns in an organization, a competitor's change in marketing strategy, or the reorganization of one department which ultimately affects the activities of other departments in the organization.

While successful managers must possess a high level of expertise in technical, human, and conceptual skills, it is also true that each skill will vary in importance according to the level at which the manager is located in the organization. As shown in figure, technical skills become least important at the top level of the management hierarchy, replaced with a greater emphasis on conceptual skills. Technical skills are most pronounced at lower levels of management because first-line managers are closer to the production process, where technical expertise is in greatest demand. Human skills are equally necessary at each level of the management hierarchy. Conceptual skills are critical for top managers because the plans, policies, and decisions developed at this level require the ability to understand how a change in one activity will affect changes in other activities.

Following 3 additional skills have been advocated by management thinkers:

Diagnostic skills: Diagnostic skills refers to a manager's analytical ability to investigate and analyse a problem or an opportunity logically, objectively and to use scientific approaches to arrive at a feasible and optimal solution.

Communication Skills: Communication skill is the ability to convey information and ideas to another person efficiently and effectively. A manager's innovative ideas will have little impact, if she/he fails to communicate it effectively.

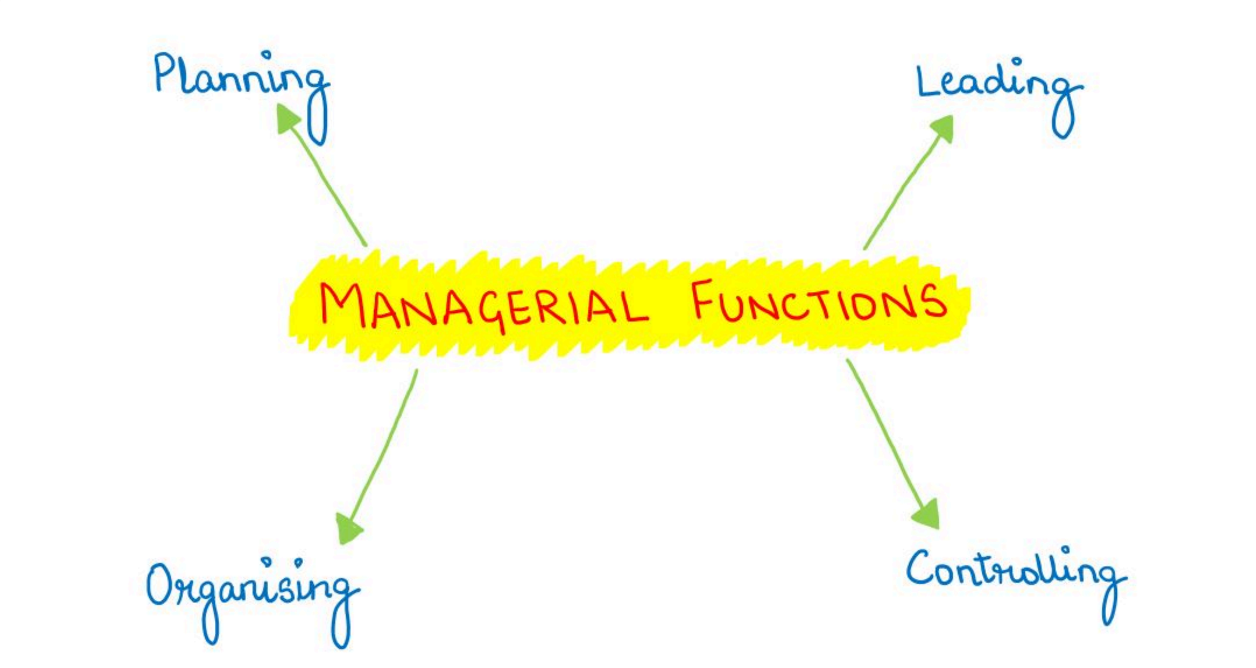
Political Skills: The ability to influence and motivate others is the key to both individual and organizational success. This is the essence of political skill.

---

4. Managerial Functions

The functions of management uniquely describe a manager's jobs. A Manager is an individual who achieves goals through other people. The functions of management define the process of management as distinct from accounting, finance, marketing, and other business functions.

The most commonly cited functions of management are planning, organizing, leading, and controlling (as recognized by Newman and Summer).



Henri Fayol identifies 5 functions namely, planning, organizing, commanding, coordinating and controlling.

Luther Gulick states 7 functions by coining a new term POSDCORB, which stands for planning, organizing, staffing, directing, coordinating, reporting and budgeting.

Koontz O' Donnel divided these functions into planning, organizing, staffing, directing and controlling. Dale (1985) has added 'innovation' and 'representation' as two additional functions of management.

Lyndall F. Urwick stated *(in his book the Elements of Administration)* that the management processes consisted of 3 functions: planning, organizing, and controlling. He added further that these functions are guided by the sub-functions of forecasting, coordination, and command.

According to Fayol, to be successful, managers need to perform 5 managerial functions: planning, organizing, coordinating, commanding, and controlling. Today, though, most management textbooks have dropped the coordinating function and refer to Fayol's commanding function as "leading." Consequently, Fayol's *management functions are known today as Planning, Organizing, Leading, and Controlling.*

Determining what the organization needs to do and how best to get it done requires planning. **Planning** has three main components. It begins when managers determine the firm's goals. Next, they develop a comprehensive strategy for achieving those goals. After a strategy is developed, they design tactical and operational plans for implementing the strategy.

Managers must also organize people and resources. We call this function **Organizing.** It includes determining what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made. **Staffing** is the formal process of ensuring that the organization has qualified workers available at all levels to meet its short and long term objectives.

The **Leading** function is concerned with leadership, communication, motivation, and supervision so that the employees perform their activities in the most efficient manner possible, in order to achieve the desired goals.

To ensure things are going as they should, management must monitor the organization's performance and compare it with previously set goals. If there are any significant deviations, it is management's job to get the organization back on track. This monitoring, comparing, and potential correcting is the **Controlling** function.

We will now discuss functions of Management one by one.

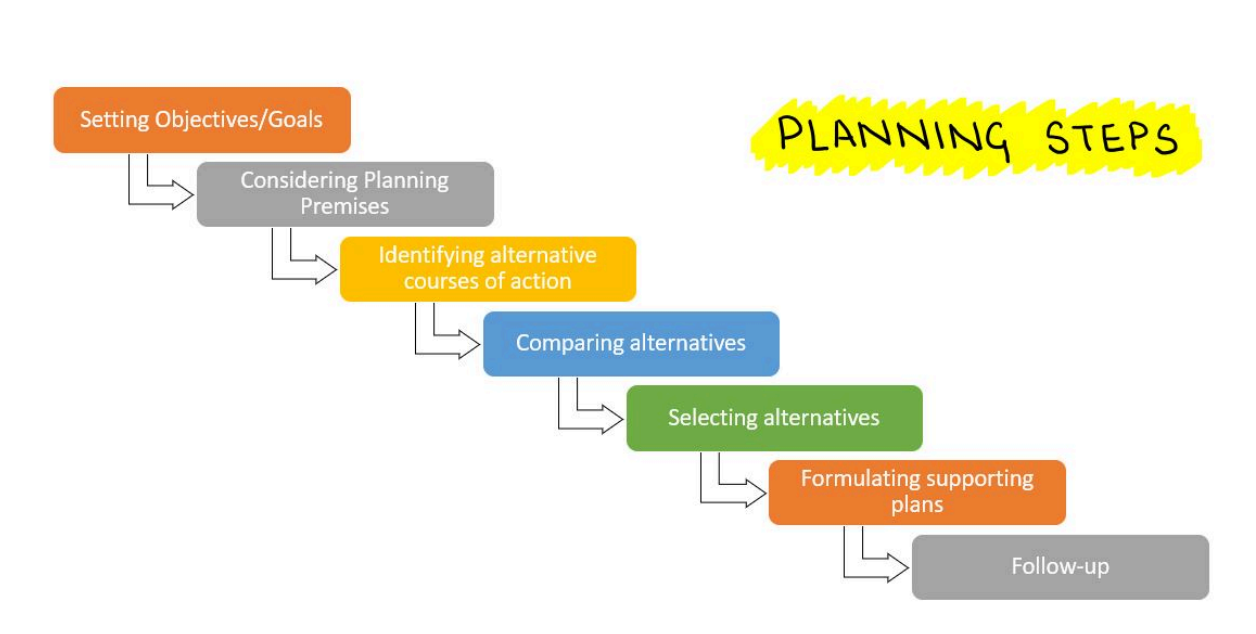
---

5. Planning

Planning is an important managerial function that involves setting a goal and developing a strategy to achieve it. It is a process of deciding in advance what needs to be done and how it will be done. There are several benefits of planning, including increased effort, persistence, direction, and the development of task strategies.

For example, when a manager sets a goal and develops a plan to achieve it, employees are motivated to put forth greater effort to accomplish the goal. The plan also provides direction and encourages employees to focus their efforts on activities that help achieve the goal and avoid activities that don't.

However, planning is not without its drawbacks. It can sometimes impede change and slow needed adaptation. Companies may become too focused on following the goals and strategies outlined in their plans, without considering that their plans may not be working or that their goals may need to change. Planning can also create a false sense of certainty, as all plans are based on assumptions about the future.



An effective planning process is future-oriented, comprehensive, systematic, integrated and negotiated. Since planning is an activity, there are certain logical steps for every manager to follow, which are as follows.

- **Setting objective or goals**, i.e., specifying what the organization wants to achieve.
- **Considering planning premises**, i.e., making certain assumptions about the future (as future is uncertain), based on which plans are to be drawn.
- **Identifying alternative courses of action**, i.e., the ways to act and achieve objectives.
- **Comparing alternatives**, i.e., the positive and negative aspects of each proposal need to be evaluated in the light of objectives to be achieved.
- **Selecting an alternative**, i.e. adopting and implementing the best plan.
- **Formulating supporting plans** to assist the implementation of primary plan.
- **Follow-up action**, i.e., monitoring the plans to ensure that objectives are achieved.

Objectives or Goals

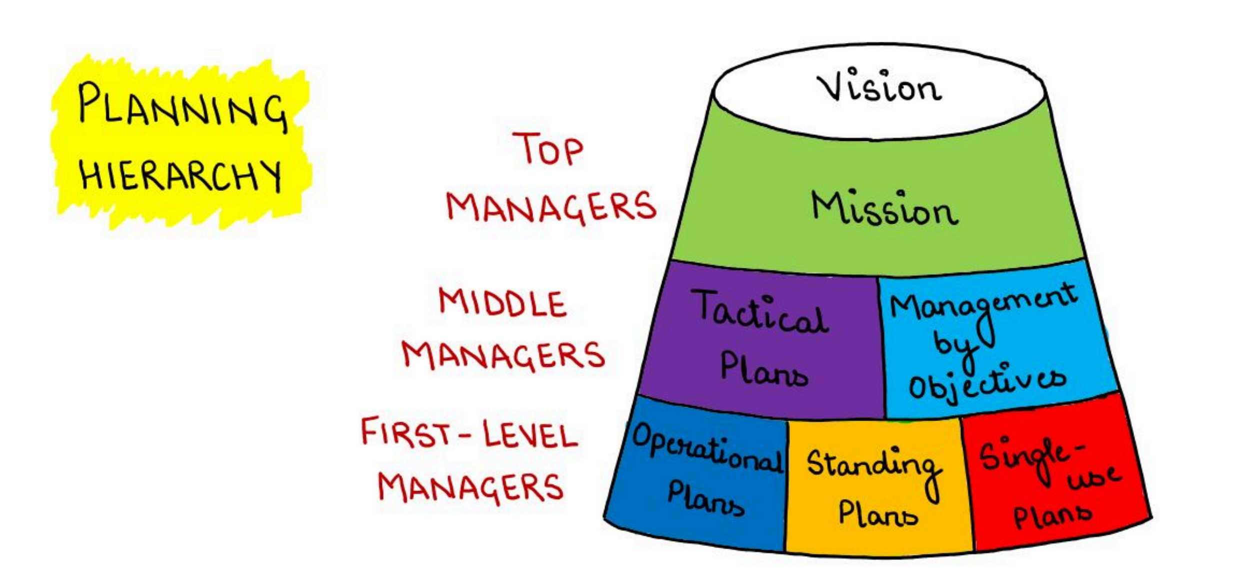
Objectives or Goals are the ends towards which every activity is aimed. They are the results to be achieved. Objectives are a prerequisite for planning. While enterprise objectives are the basic plan of the firm, a department may also have its own objectives. Though departmental objectives will contribute to the attainment of enterprise objectives but the two sets of goals may entirely be different. For example, the objective of the enterprise may be to earn a certain amount of profit, while for department it might be selling its products.

One way of writing effective goals is to use the S.M.A.R.T. guidelines. S.M.A.R.T. goals are *Specific, Measurable, Attainable, Realistic, and Timely.*

6. Planning Hierarchy

Planning works best when the goals and action plans at the bottom and middle of the organization support the goals and action plans at the top of the organization. In other words, planning works best when everybody pulls in the same direction. The Figure illustrates this planning continuity, beginning at the top with a clear definition of the company vision and ending at the bottom with the execution of operational plans.

As, we can see top managers create the organizational vision and mission, middle managers develop tactical plans and use management by objectives to motivate employee efforts toward the overall vision and mission, and first-level managers use operational, single-use, and standing plans to implement the tactical plans.



A **vision** is a statement of a company's purpose or reason for existing. Vision statements should be brief—no more than two sentences. They should also be enduring, inspirational, clear, and consistent with widely shared company beliefs and values.

The **mission,** which flows from the vision, is a more specific goal that unifies companywide efforts, stretches and challenges the organization, and possesses a finish line and a time frame.

Tactical plans specify how a company will use resources, budgets, and people to accomplish specific goals within its mission. Whereas strategic plans and objectives are used to focus company efforts over the next 2 to 5 years, tactical plans and objectives are used to direct behavior, efforts, and attention over the next 6 months to 2 years.

Management by objectives (MBO) is a management technique often used to develop and carry out tactical plans. Management by objectives, or MBO, is a four-step process in which managers and their employees:

- discuss possible goals;
- participatively select goals that are challenging, attainable, and consistent with the company's overall goals;
- jointly develop tactical plans that lead to the accomplishment of tactical goals and objectives;
- meet regularly to review progress toward accomplishment of those goals.

Lower-level managers are responsible for developing and carrying out **operational plans**, which are the day-to-day plans for producing or delivering the organization's products and services. Operational plans direct the behavior, efforts, and priorities of operative employees for periods ranging from 30 days to 6 months. There are three kinds of operational plans: single-use plans, standing plans, and budgets.

Single use plans are used only once and not over and over again whereas, repeat use plans are used again and again. For example, policies, rules and regulations, procedures etc., are **standing plans** because once formulated, they will be used for a long period and repeatedly.

- *Policies* are general statements or understandings which provide guidance in decision-making to various managers. These are standing plans providing guidance to management in the conduct of managerial operations. Policies define boundaries within which decisions can be made and decisions are directed towards the achievement of objectives.

- *Procedures* are details of action or the guidelines for the achievement of business objectives. Procedures give details of how things are to be done. No room is left for judgment. These should help in implementation of policies. Procedures also determine the policy of responsibility and accountability. Procedures should be distinguished from policies. A procedure is a guide to action whereas a policy is a guide to thinking. Policies are guidelines for taking decisions and procedures consist of various methods to accomplish each phase of work.
- A *Rule or Regulation* is a plan that lays down a required course of action with regard to a situation. A rule is in the nature of a decision made by management regarding what is to be done and what is not to be done in a particular situation. A rule is definite and rigid and allows no deviation or discretion to the subordinates.

---

7. Organizing

Once the plans have been laid down and objectives specified therein, the next step is to organise resources in a manner which leads to the accomplishment of objectives. Management must organise human and physical resources of the firm.

Thus, **Organising** can be defined as a process that initiates implementation of plans by clarifying jobs and working relationships and effectively deploying resources for attainment of identified and desired results (goals). The organising function leads to the creation of an organisational structure which includes the designing of roles to be filled by suitably skilled people and defining the inter relationship between these roles so that ambiguity in performance of duties can be eliminated. Not only is this important for productive cooperation between the personnel but also for clarification of extent of authority, as well as responsibility for results and logical grouping of activities.

The following steps emerge in the process of organizing:

- Identifying and dividing the work that has to be done in accordance with previously determined plans, to avoid duplication and promote sharing of work.
- Once work has been divided into small and manageable activities, then those activities which are similar in nature are grouped together. Such sets facilitate specialization. This grouping process is called departmentalization.
- Once departments have been formed, each of them is placed under the charge of an individual. Jobs are then allocated to the members of each department in accordance to their skills and competencies.
- Merely allocating work is not enough. Each individual should also know who he has to take orders from and to whom he is accountable. The establishment of such clear relationships helps to create a hierarchal structure and helps in coordination amongst various departments.

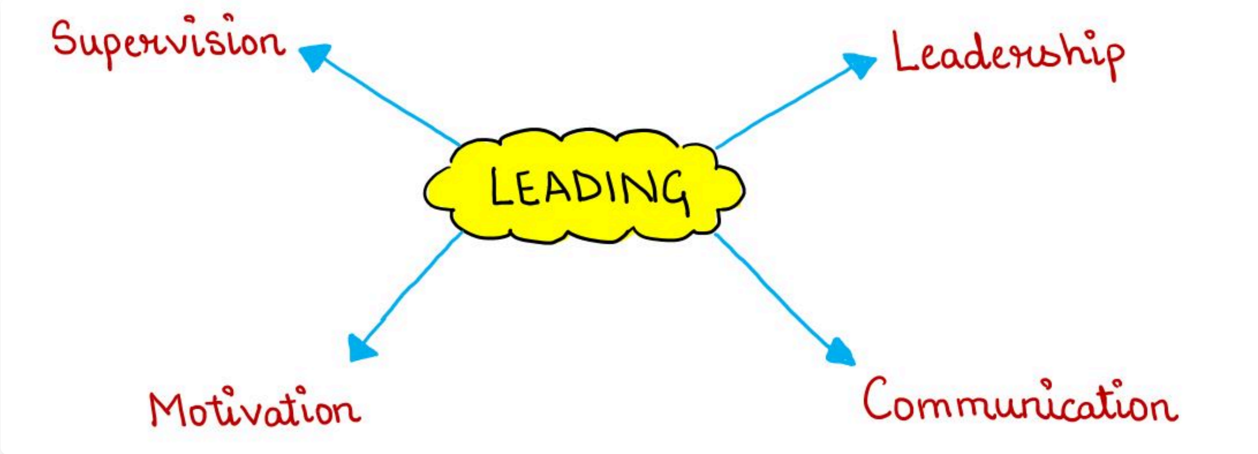
Some of concepts under organizing function are:

- designing organizations
- managing teams
- staffing and managing human resources
- managing individuals and a diverse work force

Staffing is ‘putting people to jobs’. It begins with workforce planning and includes different other function like recruitment, selection, training, development, promotion, compensation and performance appraisal of work force. In other words, staffing is that part of the process of management which is concerned with obtaining, utilizing and maintaining a satisfactory and satisfied work force.

---

8. Leading



Our third management function, leading, involves inspiring and motivating workers to work hard to achieve organizational goals. It is a complex managerial function consisting of all the activities that are designed to encourage subordinates to work effectively. It includes supervision, motivation, communication and leadership.

Leading is a crucial aspect in organizations, and it encompasses several elements that are important for success.

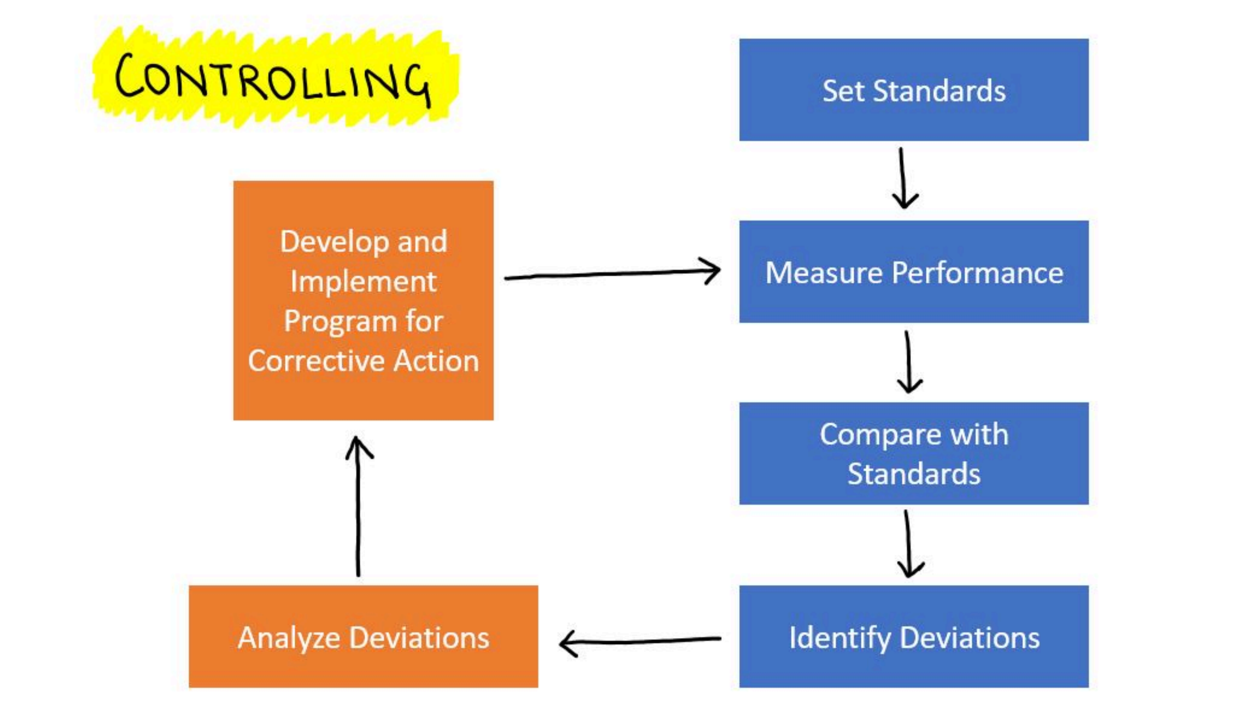
One of the elements is *Supervision*, which refers to the process of overseeing the work and guiding employees to meet targets. Supervision is also performed by a supervisor, who is a position at the operative level. This element is crucial as it is closely linked to ensuring that goals are met and work is performed efficiently.

Motivation is another important element of leading. It refers to the process of stimulating people to act towards achieving the desired goals of the organization. It is based on the individual's needs and helps in improved performance. Managers can offer incentives to employees, both financial and non-financial, to increase motivation. Financial incentives include salary, bonus, profit sharing, and pension, while non-financial incentives include social and psychological satisfaction, such as status, promotion, job recognition, and employee participation.

Leadership is a critical factor in the success of any enterprise. It is the process of influencing people to work willingly towards group objectives. Effective leadership can help an organization achieve its goals and improve its performance.

Finally, *Communication* is also a crucial element in leading. It involves transmitting information from one person or place to another. In organizations, both formal and informal communications take place, and it is important for managers to overcome any barriers to effective communication. Some of the barriers include semantic barriers, organizational barriers, language barriers, psychological barriers, and personal barriers. By taking appropriate measures to overcome these barriers, managers can promote effective communication in the organization. For example, regular training sessions on effective communication can help employees overcome language barriers.

9. Controlling



Control is a regulatory process of establishing standards to achieve organizational goals, comparing actual performance against the standards, and taking corrective action when necessary to restore performance to those standards. Control is achieved when behavior and work procedures conform to standards and company goals are accomplished. Control is not just an after-the-fact process, however. Preventive measures are also a form of control.

The Management Control is a systematic effort to:

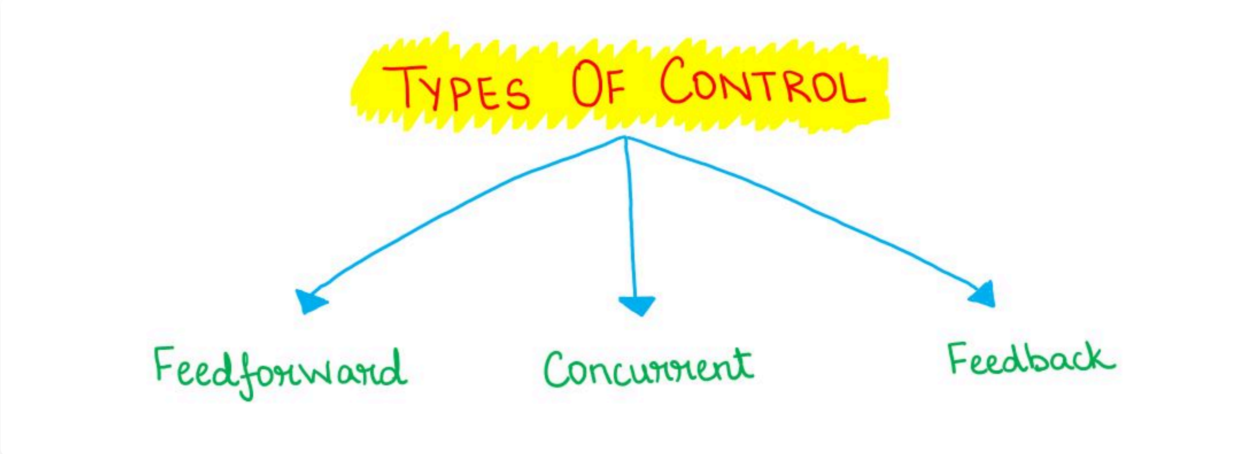
- set performance standards with planning objectives,
- design information feedback systems,
- compare actual performance with these predetermined standards,
- determine whether there are any deviations and to measure their significance, and
- take any action required to assure that all corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives.

Some of the parameters used to control are:

- balanced scorecard approach- Measurement of organizational performance in 4 equally important areas: finances, customers, internal operations, and innovation and learning.
- budgets, cash flows, and economic value added
- customer defections
- quality
- waste and pollution

Management can implement controls before an activity commences, while the activity is going on, or after the activity has been completed.

9. Controlling



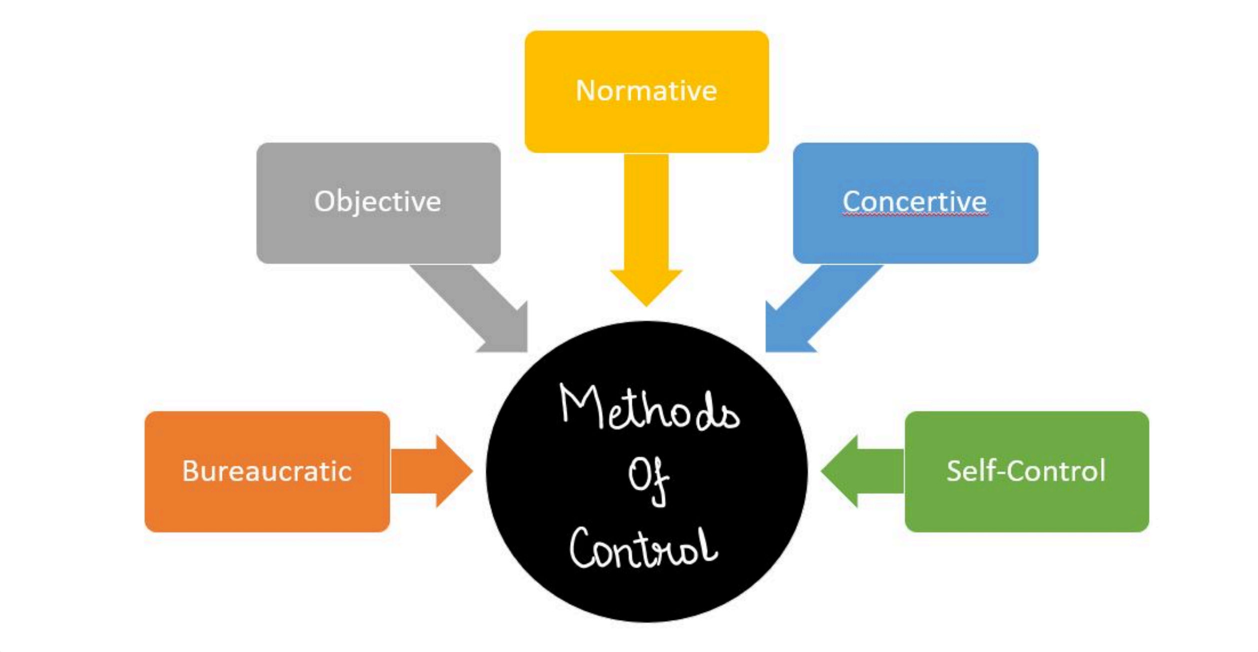
The 3 respective types of control based on timing are:

1. Feedforward Control: This type of control focuses on the regulation of inputs that flow into an organization to ensure that they meet the necessary standards for the transformation process. Feedforward control is a proactive measure that helps to prevent problems from occurring, instead of having to address them later. However, these controls require timely and accurate information, which can sometimes be difficult to acquire. Feedforward control is also known as preliminary control, pre-control, preventive control, or steering control.

2. Concurrent Control: This type of control takes place during the course of an activity. It involves the regulation of ongoing activities within the transformation process to ensure that they meet organizational standards. Concurrent control is designed to guarantee that employee work activities result in the desired output. As it involves regulating ongoing tasks, it requires a thorough understanding of the specific tasks and their relationship to the final outcome. Concurrent control is often referred to as screening or yes-no control, as it involves checkpoints where decisions are made about whether to continue, take corrective action, or halt work altogether.

3. Feedback Control: This type of control focuses on the outputs of an organization after the transformation process is complete. Feedback control, also known as post-action or output control, serves a number of important functions. In situations where feedforward and concurrent controls are not feasible or too costly, feedback control is often the only option available. Additionally, feedback control provides managers with meaningful information on the effectiveness of their planning efforts and can also enhance employee motivation. Feedback control can also help a manager understand the deviation between standard and actual performance, which can be used to make new plans more effective.

9. Controlling



Managers can use 5 different methods to achieve control in their organizations:

1. Bureaucratic Control: Bureaucratic control is a top-down control method in which managers influence employee behavior by rewarding or punishing employees for compliance or non-compliance with organizational policies, rules, and procedures. It is the most common method of control that people associate with managerial control. In a bureaucratic control system, the decision-making process is highly rule-driven and policy-driven, making the organization resistant to change and slow to respond to customers and competitors. Example: In a bureaucratic controlled company, a sales representative who fails to file an expense report within 30 days as specified by company policy would be punished, whereas one who follows the policy would be rewarded.

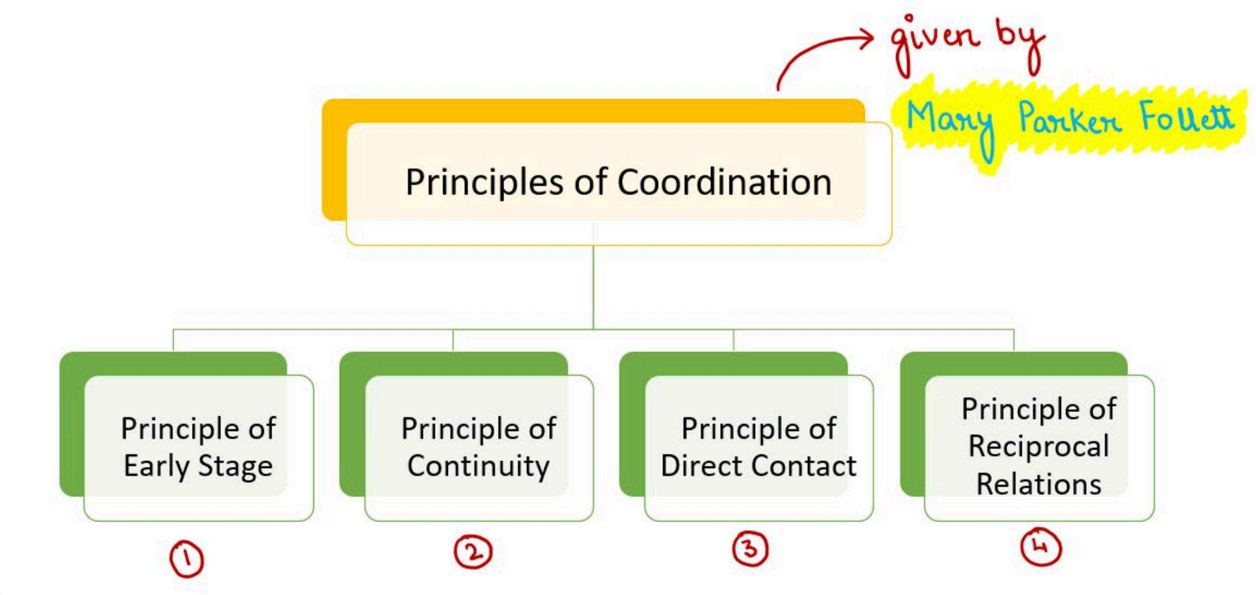
2. Objective Control: Objective control is a method of control that uses observable measures of employee behavior or output to assess performance and influence behavior. Unlike bureaucratic control, which focuses on policy compliance, objective control focuses on observing and measuring worker behavior and output. Example: Measuring a sales representative's performance based on their sales quota or the timeliness of returning phone calls is an example of objective control.

3. Normative Control: Normative control is a method of control that shapes the beliefs and values of employees in an organization. With normative controls, the widely shared values and beliefs of a company guide employee behavior and decisions. Example: In a company that emphasizes honesty and integrity, employees are expected to conduct business in a manner consistent with those values.

4. Concertive Control: Concertive control is a control system that is based on beliefs that are shaped and negotiated by work groups. This method of control arises when companies give autonomous work groups complete autonomy and responsibility for task completion. Example: A company may establish a self-managed work team responsible for its own hiring, firing, worker discipline, work schedules, and decision making.

5. Self-Control: Self-control, also known as self-management, is a control system in which managers and employees control their own behavior. In this system, leaders and managers provide clear boundaries for employees to guide and control their own goals and behaviors. Individuals who manage and lead themselves establish self-control by setting their own goals, monitoring their own progress, and rewarding or punishing themselves for achieving or not achieving their goals. Example: An individual sets a personal goal to exercise regularly, sets a schedule, and monitors their progress, rewarding themselves for sticking to the schedule and punishing themselves for missing a workout.

10. Coordination



Coordination is the process of linking the specialised activities of individuals and groups to one another and ensuring that a common purpose is served. According to James D Mooney and A C Reiley, "Co-ordination is the orderly arrangement of group efforts to provide unity of action in the pursuit of common purpose".

Mary Parker Follett gave four main Principles of Coordination. These four principles of co-ordination are called Follett's Principles of Coordination as described below:

1. Principle of Early Stage: According to this principle, coordination must start at an early stage in the management process. It must start during the planning stage. This will result in making the best plans and implementing these plans with success. If coordination is started early only then all the management functions will be performed successfully. Thus by initiating proper coordination the organisation will achieve all its objectives easily and quickly.

2. Principle of Continuity: According to this principle, coordination must be a continuous process. It must not be a one-time activity. The process of coordination must begin when the organisation starts, and it must continue until the organisation exists. Coordination must be done continuously during the management process. It must be done during planning, organising, directing and controlling.

3. Principle of Direct Contact: According to this principle, all managers must have a Direct Contact with their subordinates. This will result in good relations between the manager and their subordinates. This is because direct contact helps to avoid misunderstandings, misinterpretations and disputes between managers and subordinates. It enables the managers to coordinate all the different activities of their subordinates effectively and efficiently.

4. Principle of Reciprocal Relations: The decisions and actions of all the people (i.e. of all managers and employees) and departments of the organisation are inter-related. So, the decisions and actions of one person or department will affect all other persons and departments in the organisation. Therefore, before taking any decision or action all managers must first find out the effect of that decision or action on other persons and departments in the organisation. This is called the Principle of Reciprocal Relations. Co-ordination will be successful only if this principle is followed properly.

10. Coordination

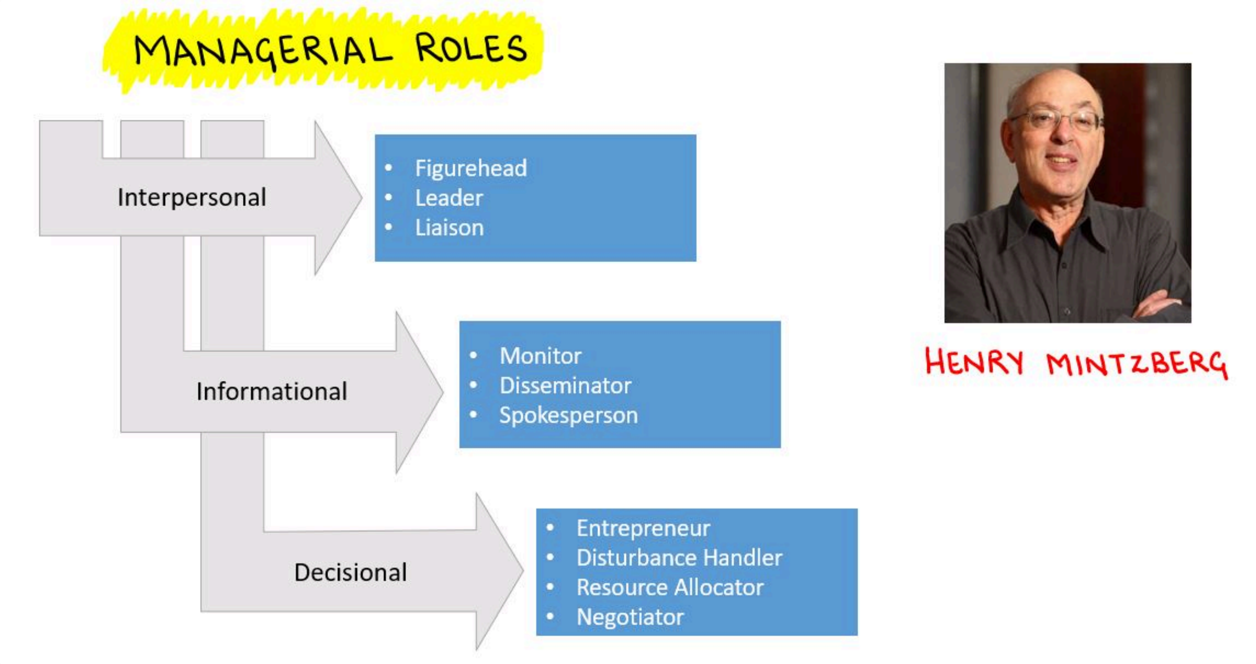
There can be 2 types of coordination:

1. Vertical Coordination: This refers to the coordination between different levels in the organization. Vertical coordination is achieved by the top management through delegation of authority. The management should ensure the harmonious working of different levels (top, middle, and lower) according to the overall organizational policies and programmes. To ensure that vertical coordination is accomplished, a manager needs to understand and apply the principles of Chain of Command, Unity of Command, Scalar Principle and Span of Control.

2. Horizontal Coordination: This refers to the coordination between various departments (or positions) at the same level in the organization. For instance, coordination between various functional managers such as production manager, marketing manager, finance manager, etc., can be termed as horizontal coordination. Horizontal coordination is achieved through mutual consultations and cooperation.

11. Managerial Roles

Mintzberg argued that the functions of management such as planning, organizing, leading, and controlling did not accurately depict the chaotic nature of managerial work.



A manager is constantly switching roles as tasks, situations, and expectations change. Management expert and professor, **Henry Mintzberg**, recognized this. In his book "Mintzberg on management inside out strange world of Organizations", he argued that there are 10 primary roles or behaviors that can be used to categorize a manager's different functions into 3 categories:

1. Interpersonal

- *Figurehead* - performing symbolic duties as a representative of the organization.
- *Leader* - establishing the atmosphere and motivating the subordinates.
- *Liaiser* - developing and maintaining webs of contacts outside the organization.

2. Informational

- *Monitor* - collecting all types of information that are relevant and useful to the organization.
- *Disseminator* - transmitting information from outside the organization to those inside.
- *Spokesman* - transmitting information from inside the organization to outsiders.

3. Decision-Making

- *Entrepreneur* - initiating change and adapting to the environment.
- *Disturbance Handler* - dealing with unexpected events.
- *Resource Allocator -* deciding on the use of organizational resources.
- *Negotiator* - negotiating with individuals and dealing with other organizations.

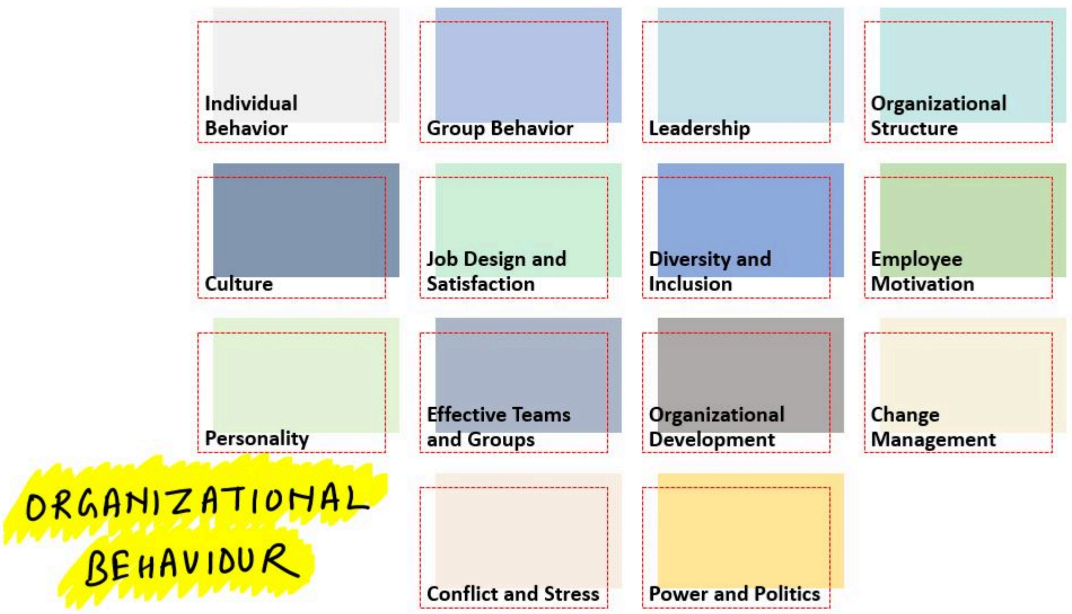
1. Introduction

Organizational Behaviour (OB), as defined by **Stephen P. Robbins**, is a field of study that focuses on understanding the behavior of individuals and groups within an organization and the impact of organizational structure on that behavior. The goal of OB is to use this knowledge to improve the effectiveness of the organization.

The study of OB encompasses various aspects of human behavior, such as personality, perception, motivation, and communication. These individual and group dynamics are analyzed in relation to the larger organizational structure, including its culture and systems. The influence of modern technology on organizational behavior is also taken into consideration.

The ultimate goal of OB is to promote the growth and success of the organization. By understanding the behavior of individuals and groups and the impact of organizational structure on that behavior, OB helps organizations identify areas for improvement and implement changes that increase efficiency and productivity.

2. Scope of organizational behavior



Some of the key concepts that we study in organizational behavior are:

1. **Individual Behavior:** Studies individual behavior, attitudes, personality, learning, and perception in the workplace context.

2. **Group Behavior:** Examines dynamics within teams, workgroups, and larger organizational units, including communication, decision-making, and conflicts.

3. **Leadership and Management:** Focuses on leadership styles, effectiveness, and management practices guiding individuals and teams.

4. **Organizational Structure:** Analyzes various organizational structures, their impact, and design on organizational effectiveness.

5. **Organizational Culture:** Studies shared values, beliefs, norms, and practices shaping an organization's culture and their influence on behavior.

6. **Job Design and Satisfaction:** Explores job design principles and factors contributing to employee satisfaction and engagement.

7. **Workplace Diversity and Inclusion:** Deals with managing differences in demographics and perspectives to create inclusive work environments.

8. **Employee Motivation:** Focuses on factors driving and sustaining employee motivation and engagement.

9. **Impact of Personality on Performance:** Explores how individual personality traits affect job performance and behavior in an organizational setting.

10. **Designing Effective Teams and Groups:** Studies methodologies for creating and managing effective teams to enhance organizational productivity.

11. **Organizational Development:** Focuses on planned strategies for organizational growth, effectiveness, and improvement.

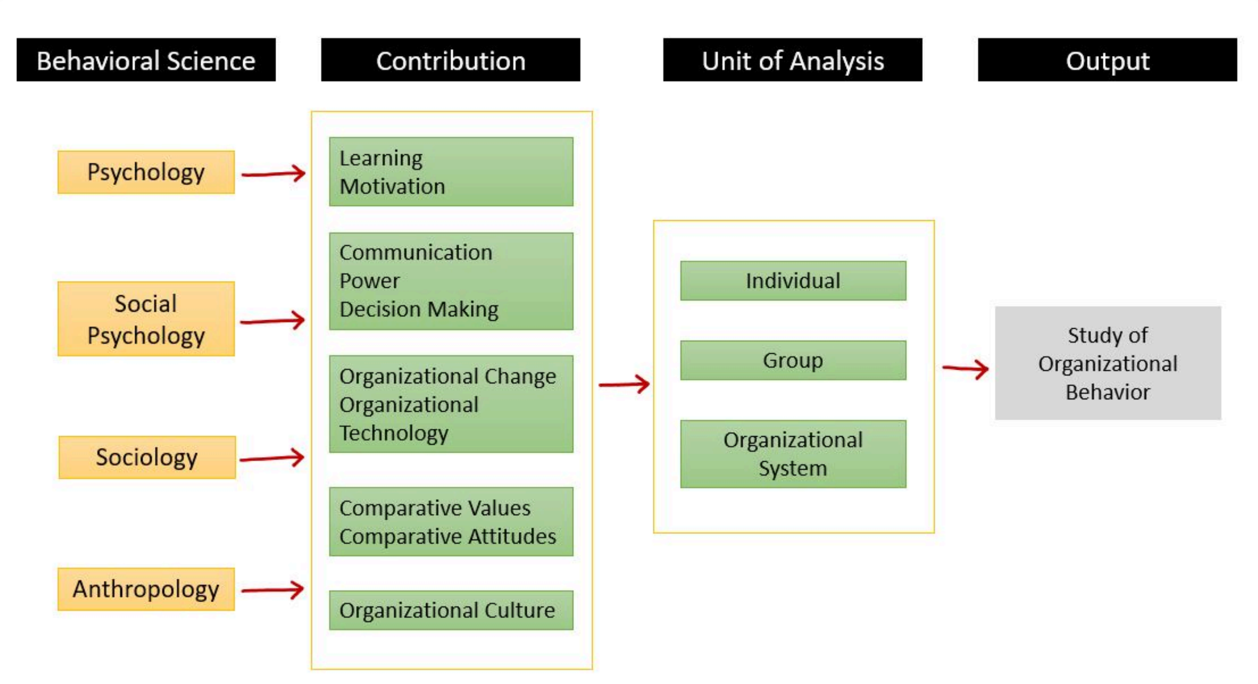
12. **Change Management:** Examines strategies and processes to manage and implement change effectively within organizations.

13. **Management of Conflict and Stress:** Deals with handling conflicts and stress in the workplace and their impact on organizational performance.

14. **Power and Politics:** Explores power dynamics, political behavior, and their influence within organizational settings.

3. Disciplines that contribute to OB

Organizational Behavior (OB) is a field of study that draws from multiple disciplines to better understand human behavior within organizations. These disciplines include psychology, economics, social psychology, sociology, anthropology, and political science. The aim of OB is to investigate the impact that individuals, groups, and structure have on behavior within organizations and apply this knowledge to improve organizational effectiveness.



1. Psychology: Psychology is an applied science, which attempts to explain human behavior in a particular situation and predicts actions of individuals. Psychology has contributed greatly to the intra individual dynamics of human behavior. In other words, psychology has contributed toward various theories on individual decision making, motivation, personality, perception, attitude, job satisfaction, performance appraisal, opinion, job design, work stress and conflict management

2. Social psychology: Social psychology is considered a branch of psychology, blends concepts from both psychology and sociology to focus on peoples' influence on one another. It has contributed to measuring, understanding, and changing attitude; identifying communication patterns; and building trust. Finally, has also made important contribution to study of group behavior, power, and conflict.

3. Sociology: Psychology focuses on the study of individual behavior, sociology addresses itself to the study of group behavior. Sociology studies people in relation to their social environment or culture. Sociologists have contributed to organizational behavior through their study of group behavior in organizations, particularly formal and complex organizations. Sociologists have studied organizational culture, formal organizational theory and structure, organizational technology, communications, power, and conflicts.

4. Anthropology: Anthropology is a field of study relating to human activities in various cultural and environmental frameworks. Anthropologists' work on culture and environment has helped to understand differences in fundamental values, attitudes, and behavior between people in different countries and within different organizations.

Political science also plays an important role in OB by investigating the behavior of individuals and groups within political environments. Political scientists have made contributions to OB by studying conflict resolution, group coalition, allocation of power, and the manipulation of power for self-interest.

For example, an organization may utilize the insights from these disciplines to improve its overall effectiveness. By incorporating psychological insights, the organization can improve employee motivation and job satisfaction. By incorporating sociological insights, the organization can better understand and improve its organizational culture. By incorporating insights from political science, the organization can improve conflict resolution and power dynamics within the workplace.

4. Models of Organizational Behaviour

All the models of organizational behaviour are broadly classified into four types: autocratic, custodial, supportive and collegial. Let us discuss them one by one.

1. Autocratic Model: "Might is right" is the motto of the theory. It depends upon power. Those who are in command must have power to demand. Employees are to follow their boss. Management thinks that employees are passive and resistant to organisational needs. It is just like theory developed by McGregor. Under autocratic conditions, the employee orientation is obedience to a boss, not respect for a manager. The psychological result for employee's orientation is dependence on their boss, whose power to hire, fire, etc., is almost absolute. The boss pays minimum wages because minimum performance is given by employees. They are willing to give minimum performance though sometimes reluctantly because they must satisfy subsistence needs for themselves and their families.

2. Custodial Model: Workers being managed under the autocratic model often feel insecurity and frustration. They may even show aggression towards their boss and their families and neighbours. That is why progressive managers felt that there must be some ways to develop better employee relationships so that insecurity and frustration could be dispelled. The custodial model provides for employees' dependence on organisation rather than dependence on their boss. The model emphasizes economic reward, security, organisational dependence, and maintenance factors. The custodial approach leads to employee dependence on the organisation. Rather than being dependent on their boss for their weekly bread, employees now depend on organisations for their security and welfare. The managers using a custodial model operate mostly out of McGregor's Theory X.

3. Supportive Model: The basic idea behind this theory is that leadership motivates the people to work and not the power of money as in custodial model. Through leadership, management provides a climate to help employees grown and accomplish in the interest of the organisation, the things of which rather than to simply support employee benefit payments as in the custodial approach. Under the supportive model, the workers feel a sense of participation and task involvement in the organisation. The manager's role is one of helping employee to solve their problems and accomplish their work.

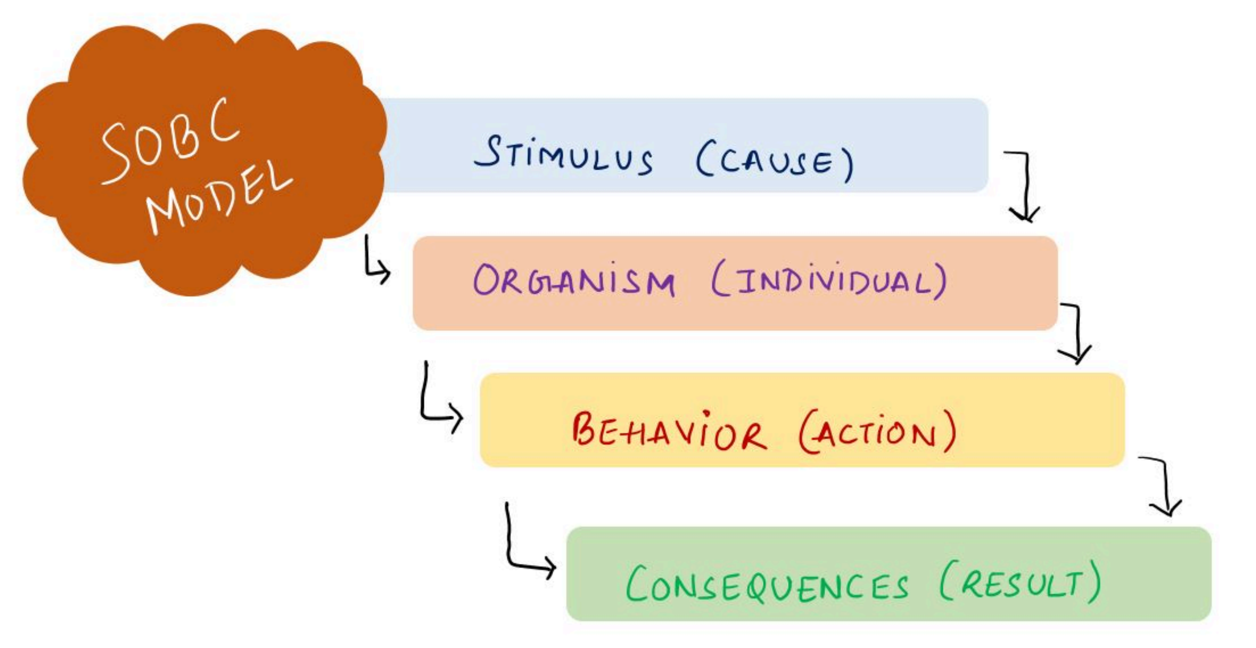
4. Collegial Model: A useful extension of the supportive model is the Collegial model. The term Collegial relates to a body of persons having a common purpose. The collegial model, embodies a term concept. It was traditionally used theory and is based on the principle of mutual contribution by employer and employees. Each employee should develop a feeling that he is a part of the whole organization and contributing something to it and recognizes others' contribution. The managerial orientation is toward team-work.

Parameter basis	Autocratic	Custodial	Supportive	Collegial
Managerial orientation	Authority	Money	Support	Teamwork
Employee orientation	Obedience	Job security	Performance	Responsibility
Employee psychology	Dependence on boss	Dependence on organisation	Participation	Self-discipline

Parameter basis	Autocratic	Custodial	Supportive	Collegial
Employee needs	Survival	Maintenance	Self-esteem & recognition	Self-actualisation
Performance results	Minimum	Passive co-operation	Efficient	Effective
Level of morale	Compliance	Satisfaction	Motivation	Commitment

5. SOBC Model

Fred E Luthans has explained the conceptual framework of OB in form of the S-O-B-C Model. It is based on the philosophy that 'human behaviour is caused and follows the cause-effect relationship'. SOBC stands for Stimulus, Organism, Behaviour, Consequences. The order is Stimulus > Organism > Behaviour > Consequences.



1. Stimuli (S) or Situation

They include overt and covert stimuli, or physical, socio-cultural, international, and technological environment. These stimuli constitute physical settings and external situations that affect reactions or responses of people; they make people react or respond. Organisational culture is the most important determinant of situational behaviour. Organisational structures, management processes, and job design are major situational inputs (stimuli) that affect people's behaviour. Organisational structure consists of designations, roles, and positions. Management processes include decision-making, control, communication, power, and goal setting. Job design shows systematic arrangement of job contents, including job title, location, duties, working conditions, responsibility, skills, knowledge, rewards, relations, timing, and so forth.

2. Organism (O) or Organisational Participants

They consist of cognitive mediators and physiological beings. Type and characteristics of participants are key to organisation. They can be thought of in terms of cognitive and psychological processes. Personality, perception, attitudes, and motivation and learning processes are the heart of micro study of organisational behaviour. They constitute the most vital constituent in OB model. Organisational participants interact with the situation.

3. Behaviour (B) or Organisational Behaviour

It consists of individual and group behaviour. It implies reaction patterns of people to stimuli. Certain dynamics of human resource management are especially relevant to regulate consequences. The dynamics of group, stress, conflict, politics, power, leadership, etc., affect/regulate behaviour of participants and are important in the study of organisational behaviour.

4. Consequences (S) or Organisational and Behavioural Consequences

They consist of overt and covert, as well as positive and negative, contingent consequences and environmental dynamics and their implications. The study of organisational and behavioural consequences indicates final outcomes of behaviour. It helps in predicting and controlling human behaviour. Performance, relations, satisfaction, turnover, productivity, effectiveness, absenteeism, morale, etc., can be treated as organisational behaviour outcomes. These outcomes hold definite implications for managing and improving human behaviour. All variables are in continuous interaction with one another and reciprocally affect one another. Interactive nature of these variables is the essence of organisational behaviour, and it serves as the foundation for behavioural approach to management.

6. Organizational Citizenship Behaviour

Organizational Citizenship Behaviour (OCB) refers to voluntary actions by employees that support the effective functioning of the organization, but are not part of their formal job requirements. OCBs can be seen as the "extra mile" that employees go to support their colleagues, organization and its goals.

Examples of OCBs include helping a co-worker with a task, participating in volunteer work organized by the company, promoting the company's image and reputation, showing commitment and dedication to the company, and being cooperative and friendly with colleagues. These actions can contribute to a positive and productive workplace culture, which can lead to better morale, higher job satisfaction, and increased productivity.

It is important to note that OCBs are discretionary, meaning that employees are not obligated to engage in them, and that the decision to participate is entirely up to the individual. However, organizations can create an environment that encourages and supports OCB by recognizing and rewarding employees who engage in such behavior, promoting a positive work culture, and fostering a sense of teamwork and interdependence among employees.

In conclusion, OCBs play a critical role in promoting the effective functioning of organizations by creating a positive and productive workplace culture, improving morale and job satisfaction, and contributing to the overall success of the organization.

---

7. Evidence based management

Evidence-based management (EBM) is an approach to organizational decision-making that emphasizes the use of evidence and data to inform management practices. It seeks to bring the latest research evidence to bear on real-world management problems, with the goal of improving organizational outcomes.

In the context of organizational behavior, EBM can be applied to various areas, including employee motivation, leadership, organizational culture, human resource management, and more. The goal of EBM is to enhance the effectiveness of management practices by making decisions that are grounded in scientific evidence, as opposed to relying on intuition, tradition, or personal experience.

The process of EBM involves four key steps:

1. Identifying the problem or decision that needs to be made
2. Conducting a systematic search for the best available evidence
3. Critically evaluating the evidence to determine its validity and usefulness
4. Applying the evidence to make a decision

The use of EBM in organizational behavior has the potential to improve the quality of management decision-making and to lead to better outcomes for organizations. For example, EBM can help organizations to understand the factors that influence employee motivation and to design more effective incentives. It can also help organizations to identify effective leadership styles and to create more positive organizational cultures.

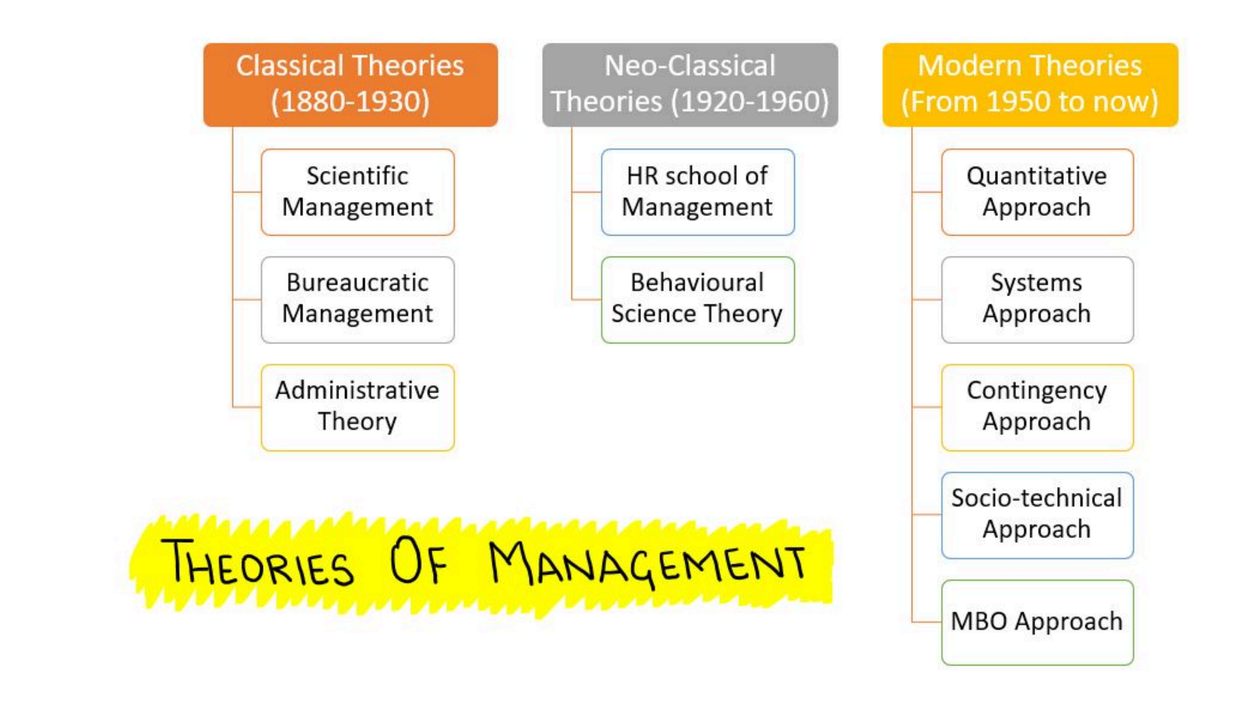
In conclusion, evidence-based management is an approach that emphasizes the use of data and research evidence to inform management practices. In the context of organizational behavior, EBM can be applied to various areas to improve organizational outcomes by making evidence-based decisions.

---

1. Introduction

Under various approaches, management was described from different point of views largely depending on the perspective and background of the management thinker.

There are 3 major theories of organizations and management, which have been explained in the figure.



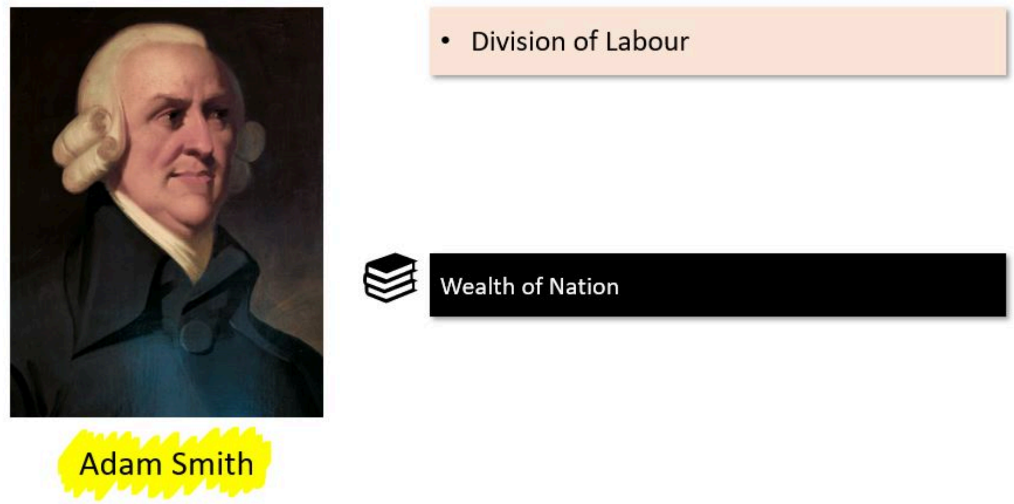
Before exploring these theories, let us analyze the period before Classical Theories.

2. Pre-Scientific Management Period

The development of technology during the Industrial Revolution, at the end of the 19th and the beginning of the 20th centuries, produced a factory system that brought workers into a central location and into contact with other workers.

Let us discuss some of prominent management thinkers, during this period.

2. Pre-Scientific Management Period



In "The Wealth of Nations," Adam Smith, often considered the father of modern economics, extensively discussed the benefits of the division of labor. He argued that the division of labor significantly enhances productivity and efficiency within a society or an organization.

Smith's concept of the division of labor revolves around breaking down the production process into smaller, specialized tasks. Instead of one individual performing all the steps in the production of a good or service, each worker focuses on a specific task in the overall process. This specialization allows workers to develop expertise in their particular tasks, leading to increased efficiency and proficiency.

There are several key points that Adam Smith emphasized regarding the division of labor:

1. **Increased Productivity**: Smith argued that when workers specialize in specific tasks, they become more skilled and efficient in those areas. As a result, they can produce more output in less time.
2. **Time and Skill Development**: Specialization allows workers to save time by focusing on a specific task rather than switching between multiple tasks. Additionally, it enables them to hone their skills and become more adept at their specialized tasks.
3. **Innovation and Technology:** Smith noted that the division of labor often leads to technological advancements and innovation. When individuals concentrate on specific tasks, they tend to find more efficient methods or tools to perform those tasks, fostering innovation.
4. **Economic Growth**: By increasing efficiency and productivity, the division of labor contributes to overall economic growth. It allows for the production of a greater quantity and variety of goods and services, meeting the needs of a growing population.
5. **Wealth Creation**: Smith argued that the division of labor is essential for generating wealth in a society. As productivity increases, more goods and services become available, leading to higher standards of living.

Smith used the example of a pin factory to illustrate the advantages of the division of labor. He described how the production of pins could be significantly more efficient when workers specialized in specific tasks such as drawing wire, straightening it, cutting it, and so on, rather than having one worker perform all these tasks individually.

2. Pre-Scientific Management Period

Robert Owen

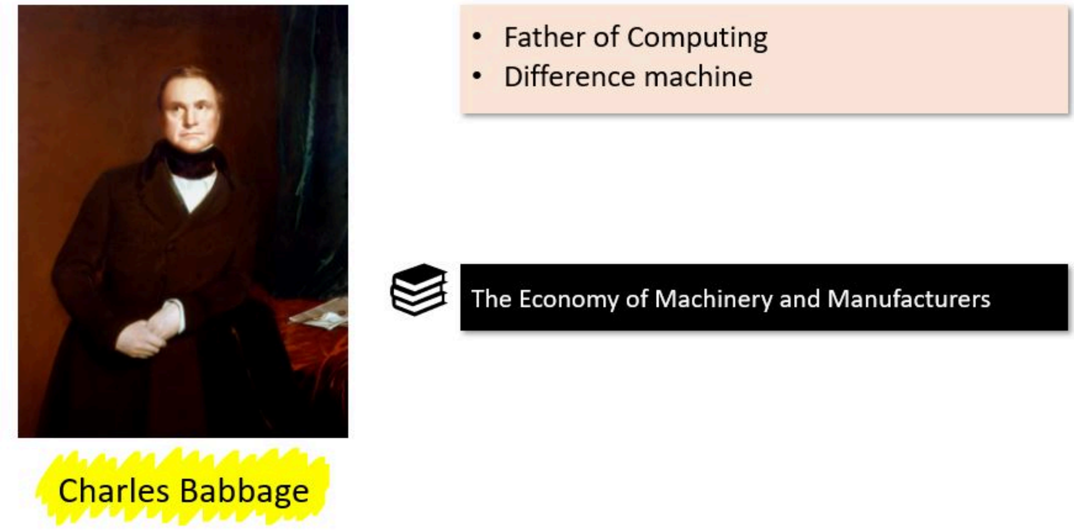
- Father of Personnel Management
- New Lanark experiment
- Improved working conditions

One of the most successful industrialists of the early 19th century, Robert Owen was an outstanding pioneer of management. He is also called "Father of Personnel Management". During the period 1800 to 1828, he carried out an unprecedented experiment in the group of textile mills in Scotland. Owen improved working conditions in the factory, raised the minimum working age for children, reduced hours of work for employees, and sought to improve the entire community in which his employees lived by building houses and streets and making the community and factory attractive. Robert Owen is best known for his model textile factory and village at New Lanark in Scotland.

Robert Owen's contributions to Management are:

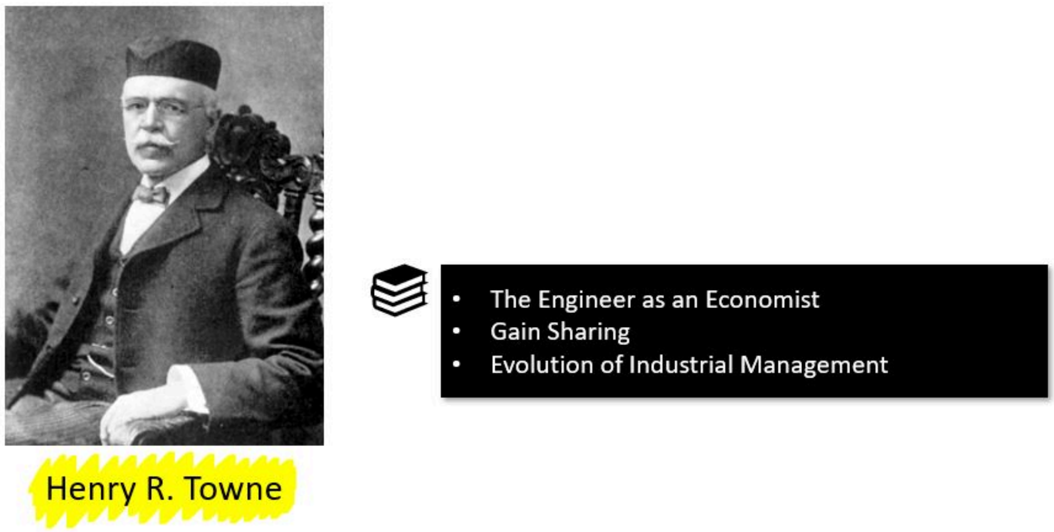
1. He advocated for a change in the attitude of industrialists towards workers.
2. He made all possible efforts to win the confidence of workers by improving working conditions and extending several facilities like housing, providing goods to the workers at cheaper rates, etc.
3. For increasing productivity, Owen instituted quite a few specific work procedures.
4. Owen eliminated corporal punishment of children and strongly insisted on their education.
5. Owen introduced a system of motivation for improving productivity in his factory.

2. Pre-Scientific Management Period



Not an industrialist or a manager but primarily a professor and scientist, Charles Babbage was a leading British mathematician who served as professor of mathematics at Cambridge University from 1828 to 1839. He is best remembered for his invention in 1822 of mechanical calculator, which he called a 'difference machine', and his famous book on *The Economy of Machinery and Manufacturers* published in 1832. He is known as "Father of Computing".

2. Pre-Scientific Management Period



Henry R. Towne was instrumental in establishing modern management methods in his company's shops. As early as 1870, Towne began the systematic application of efficient management methods; and his paper, *The Engineer as an Economist*, probably inspired **Frederick W. Taylor** to devote his life's work to scientific management. In his paper, Towne emphasized that shop management was equal in importance to engineering management in the efficient direction of an enterprise.

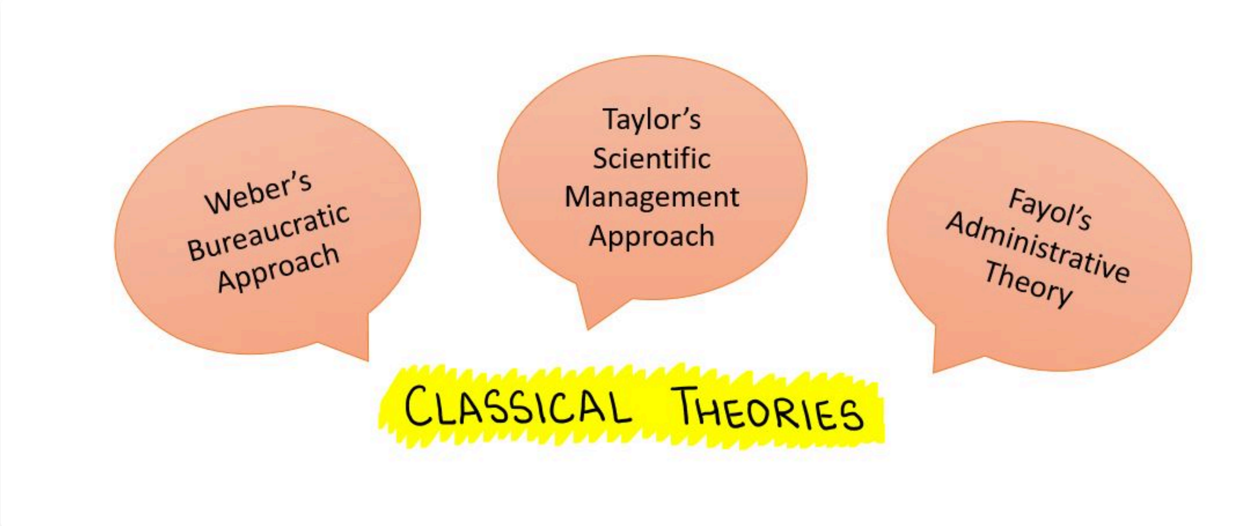
In a second paper, **Gain Sharing**, published in 1896, he contended that profit sharing was neither an equitable adjustment nor a correct solution to an economic problem. The gain that one department could make through its increased efforts could be lost in another. Hence, he advocated the determination of the cost for each element of another. Then, what the employees of one department gained could be returned to them according to their merit. For this reason, he called his plan gain-sharing rather than profit-sharing. Towne's plan guaranteed a definite wage rate to each employee, with the gain that each department made above the scientifically determined standard split fifty-fifty between employer and employee.

His third paper was *Evolution of Industrial Management.*

2. Pre-Scientific Management Period

Hugo Munsterberg created the field of industrial psychology — the scientific study of individuals at work to maximize their productivity and adjustment. Hugo Munsterberg is considered to be the "*Father of industrial psychology*" and is regarded by students of psychology as an important figure as Frederick Taylor is by students of management. His famous book is "*Psychology and Industrial efficiency*".

3. Classical Theories

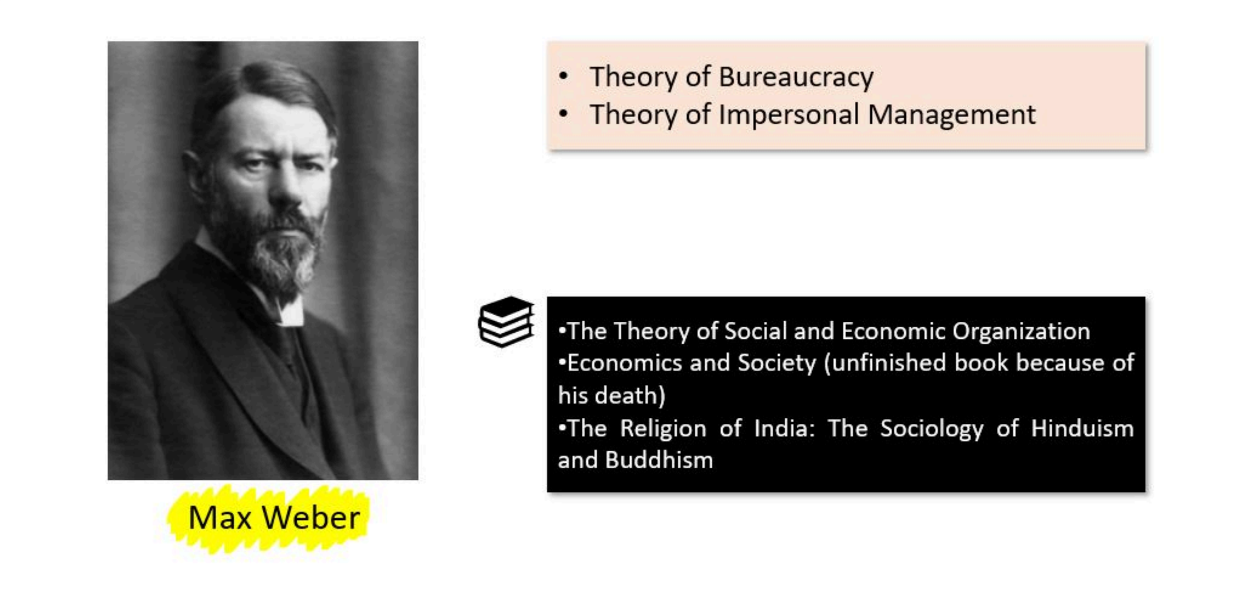


Classical management theory was introduced in the late 19th century during the Industrial Revolution. At this time, managers were interested in findings ways to improve productivity, lower cost, increase quality of their products, improve employee/manager relationships and increase efficiency at their factories. The main concern for classical management theorists was finding the best possible way for workers to perform and manage their tasks.

Classical Management theory expanded throughout the first half of the 20th century as managers continued to look for ways to deal with issues surrounding industrial management. Three separate branches emerged:

1. Weber's Bureaucratic approach
2. Taylor's Scientific Management approach
3. Fayol's Administrative theory

4. Weber's Bureaucratic Approach

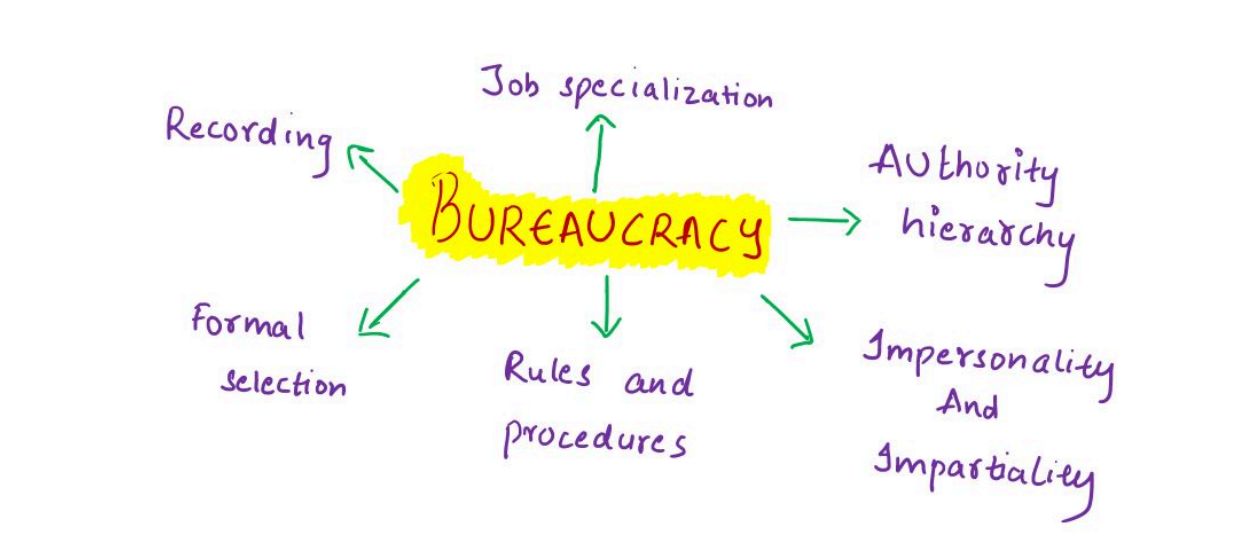


Max Weber (1864-1920), a German sociologist introduced the theory of Bureaucracy, also known as *Theory of Impersonal Management*. His major contribution to the theory is the concept of *authority structure and its inter-se relationship*.

While Frederick W Taylor was interested in the one best way to perform a job, Weber was concerned with the one best way to structure an organization. Literally, the Bureaucracy means 'rule by office or by officials'.

Weber in his model of bureaucracy stated that there are 3 types of authority in any organization:

1. **Rational-Legal authority** indicating that a person holds authority based on legal position or a rank within the hierarchy. For example, a production manager in the industry or a battalion commander in the military organization.
2. **Traditional authority**, employees obey a person because he comes from a traditionally recognized power holding family or a person belonging to a royal family.
3. **Charismatic authority**, which indicates special power or an appeal that a leader possesses.



Salient points of the Bureaucratic model are as under:

1. **Rules and procedures**: Employees subject to rules and procedures ensuring predictable behaviour. In bureaucratic model, rule of law exists that leads to impersonal behaviour of employees. Relations are based on position in the hierarchy.
2. **Impersonality and impartiality**: Uniform application of rules and procedures to all employees in an unbiased way.
3. **Recording**: Administrative acts and decisions are recorded in writing to provide continuing organizational memory.

4. **Job specialization**: Jobs broken down into simple, routine, and well-defined tasks. There is division of work based on competence and functional foremanship.
5. **Authority hierarchy**: Positions organized in a hierarchy with a chain of command.
6. **Formal selection**: Personnel are selected for jobs on basis of technical qualifications and are offered a career. Selection and promotion of employees should be *based on competence*.

Thus, in Weberian model of Bureaucracy, the main elements can be summarized as (i) Impersonal order, (ii) Sphere of competence, (iii) Rules, (iv) Hierarchy, (v) Personal and public ends, (vi) Written documents and (vii) Monocratic type.

Some of important books written by Weber are:

- The Protestant Ethics and the Spirit of Capitalism
- The Theory of Social and Economic Organization
- Economics and Society (unfinished book because of his death)
- The Religion of India: The Sociology of Hinduism and Buddhism

---

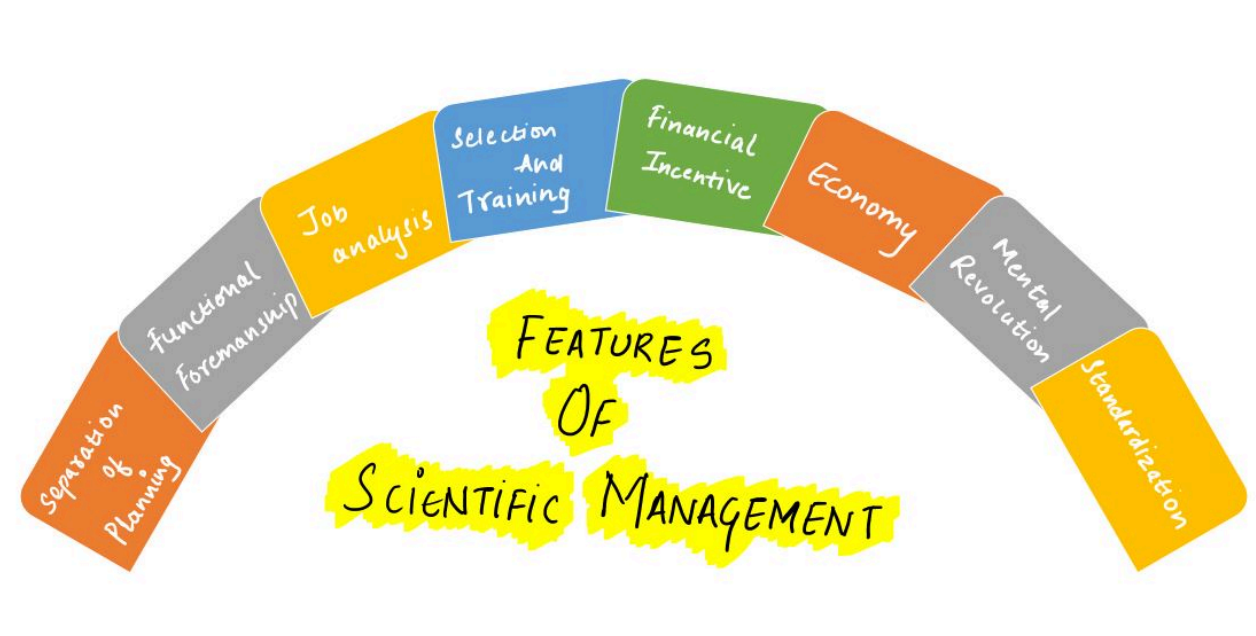
5. Taylor's Scientific Management Approach

The Scientific Management School, stimulated by F.W. Taylor and carried on by others through the years, suggested a totally revolutionary way of thinking about the problems of work and organizations. Taylor has defined the basic problem of managing as the art of “knowing exactly what you want men to do and then see in that they do it in the best and cheapest way”. He is generally accepted as the “Father of Scientific Management”. Taylor a practicing manager, engineer, consultant, and written researcher was the most influential management pioneer. Taylor conducted various experiments at workplaces to find out how human beings could be made more efficient by standardizing the work and finding better method of doing the work. The Scientific Management is also called *Taylorism.*

His book "Principles of Scientific Management" had story of “Schmidt,” a stocky Pennsylvania German who was a pig-iron loader at Bethlehem Steel. Schmidt loaded about 12 tons of iron pigs each day. Using Taylor’s principles, “scientific managers” raised Schmidt’s output to 48 tons per day, and raised his daily wages from $1.15 to $1.85.

---

5. Taylor's Scientific Management Approach



These experiments have provided the following features of scientific management:

1. Separation of Planning and doing: Taylor emphasized the separation of planning aspect from actual doing the work. Taylor emphasized that planning should be left to supervisor and worker should have emphasis only on operational work.

2. Functional Foremanship: Separation of planning from doing resulted into development of supervision system which could take planning work adequately besides keeping supervision of workers. From this, evolved the concept of functional foremanship based on specialization of functions. In this system, 8 persons are involved to direct the activities of workers. But of these, 4 persons are concerned with planning. They are Route clerk, Instructions card clerk, Time and cost clerk and Disciplinarian. The remaining 4 persons are concerned with doing aspect of the work. They are Speed boss, Inspector, Maintenance foreman and Gang boss. All of them give directions to workers on different aspects of work. This is against unity of command principle.

3. Job Analysis: Job analysis is undertaken to find out the one best way of doing the job. The best way of doing a job is one which requires the least movements. The best ways of doing the task can be determined by taking up time-motion-fatigue studies. Time study involves the determination of time a movement takes to complete. The movement, which takes minimum time, is the best one. Motion study involves the study of movements in parts and is involved in doing a job and thereby eliminating the wasteful movements and performing only necessary movement. Fatigue study shows the amount and frequency of rest required in completing the work. Thus, job analysis, as given by Taylor suggests the fair amount of a day’s work requiring certain movements and rest periods to complete it.

4. Standardization: As far as possible, standardization should be maintained in respect of instruments and tools, period of work, amount of work, working conditions cost of production etc. These things should be fixed in advance on the basis of job analysis and various elements of costs that to in performing a work.

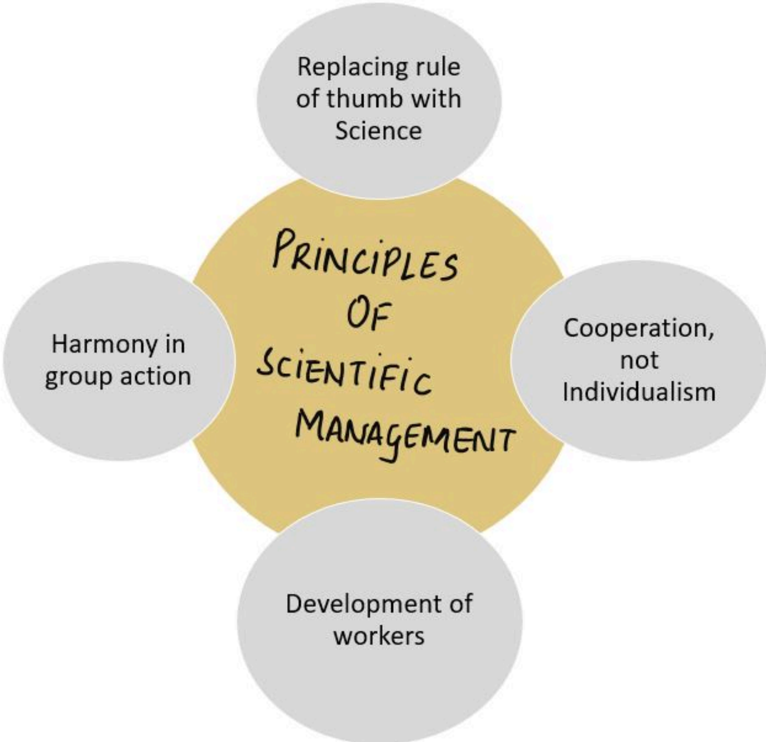
5. Scientific Selection and Training of Workers: Taylor has suggested that workers should be selected on scientific basis keeping into account their education, work experience, aptitude, physical strength etc. A worker should be given work for which he is physically on technically most suitable. Apart from selection, proper emphasis should be given on the training of workers, which makes them more efficient and effective.

6. Financial Incentive / Pay Incentives: Financial incentives can motivate workers to put in their maximum efforts. To make the differential piece rate system work, Taylor has suggested that wages should be based on individual performance and not on the position, which he occupies. Further, the wage rate should be fixed based on accurate knowledge and not on estimates.

7. Economy: While applying Scientific Management, not only Scientific and technical aspects should be considered but adequate consideration should be given to economy and profit.

8. Mental Revolution: Scientific Management depends on the mutual co-operation between management and workers. For this co-operation, there should be mental change in both parties from conflict to co-operation.

5. Taylor's Scientific Management Approach



The scientific management approach propounded by F.W. Taylor is based upon the following 4 principles:

(i) **Replacing Rule of Thumb with Science**: This principle says that we should not get stuck in a set routine with the old techniques of doing work, rather we should be constantly experimenting to develop new techniques which make the work much simpler, easier and quicker.

(ii) **Harmony in Group Action**: As per this principle, such an atmosphere should be created in the organisation that labour (the major factor of production) and management consider each other indispensable. Taylor has referred to such a situation as a 'Mental Revolution'. Taylor firmly believed that the occurrence of a mental revolution would end all conflicts between the two parties and would be beneficial to both of them.

(iii) **Cooperation, not Individualism**: According to this principle, all the activities done by different people must be carried on with a spirit of mutual cooperation. Taylor has suggested that the manager and the workers should jointly determine standards. This increases involvement and thus, in turn, increases responsibility. In this way we can expect miraculous results.

(iv) **Development of Workers**: According to this principle, the efficiency of each and every person should be taken care of right from his selection. A proper arrangement of everybody's training should be made. It should also be taken care that each individual should be allotted work according to his ability and interest.

5. Taylor's Scientific Management Approach

Key concepts associated with the Scientific Management are:

1. One best way to do work: This concept is a key principle of scientific management and refers to the idea that there is a most efficient way to perform any task, and that this method should be determined and standardized through systematic study and analysis.

2. Soldiering: This term refers to the practice of working at a slow or inefficient pace, often in an attempt to conserve energy or avoid extra work. In the context of scientific management, soldiering was seen as a major obstacle to productivity and efficiency, and efforts were made to eliminate it through better training, incentives, and supervision.

3. Rate buster: A rate buster is a worker who consistently performs a task at a higher rate of speed or efficiency than what is considered normal. The concept of rate busters was used by Taylor and others to demonstrate the potential for increased productivity through scientific management methods.

4. Fair day's work: This concept refers to the idea that a worker should be paid a fair wage for a day's work, based on the amount and quality of work performed. Scientific management advocates believed that the establishment of fair day's work standards would encourage workers to improve their efficiency and productivity, as they would be rewarded for doing so.

5. Schmidt - high-priced man: This term was used by Taylor to refer to highly skilled workers who were capable of performing complex tasks at a faster pace and higher quality than the average worker. Taylor believed that by identifying and developing these high-priced workers, productivity and efficiency could be increased throughout an organization.

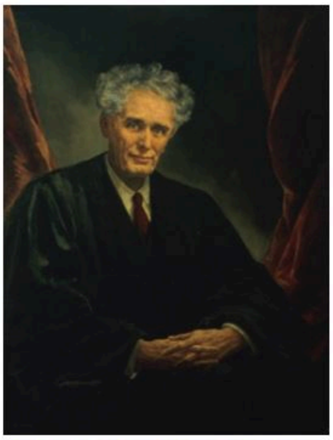
---

6. Scientific Management - other contributors

Let us discuss some of other thinkers, who contributed to the Scientific Management.

---

6. Scientific Management - other contributors



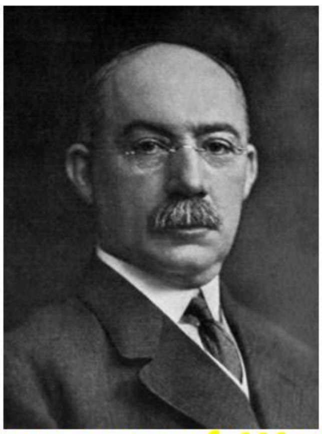
Louis D. Brandeis

- Coined the term “Scientific Management”
- Promoted Scientific Management
- US Supreme Court Judge

In 1911, Louis D. Brandeis, later a Supreme Court Justice, introduced the testimony of one of the leaders of the scientific management movement, Harrington Emerson, into a case before the Interstate Commerce Commission. Mr. Brandeis was appearing on behalf of a group of shippers who were protesting the application of the railroads for an increase in freight rates. Mr. Emerson testified that the railroads could save themselves $1,000,000 per day by the adoption of scientific management techniques. It was Louis Brandeis, who coined the term "scientific management" in 1911.

---

6. Scientific Management - other contributors



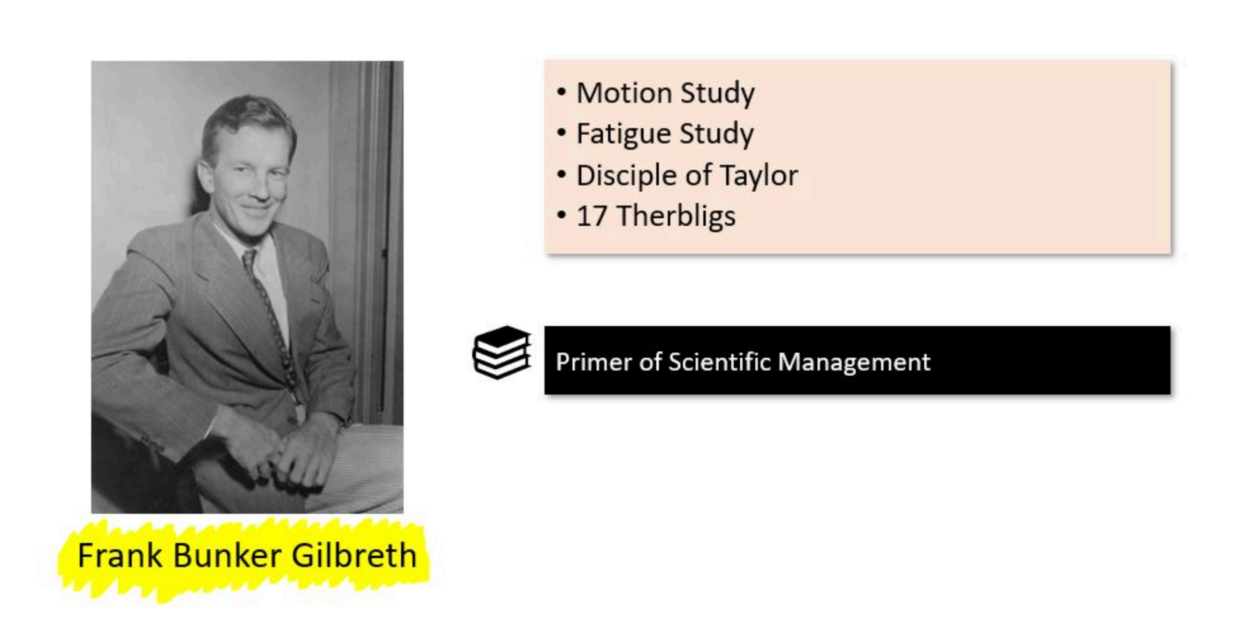
Henry Lawrence Gantt

- Gantt Chart
- Task and Bonus System
- Associate of F. W. Taylor

Henry Lawrence Gantt was a close associate of Taylor and he was influenced by the tenets of scientific management. H. L. Gantt improved upon the Taylor's system of Wage payment and incentives. He published his ideas in the article *A bonus system of rewarding labour (1902)* and the book *Works, Wages and Profits (1910)*. He created the **Gantt chart** in the 1910s.

---

6. Scientific Management - other contributors



Frank Bunker Gilbreth is known as the disciple of Taylor who concentrated his efforts on *Motion Study and Fatigue Study* which is an extension of scientific management as propounded by F. W. Taylor. His in depth analysis for the best method resulted in **Therblig's** which identified 17 basic elements in completion of a task. **Gilbreth's** published work included *Motion Study (1911), Primer of Scientific Management (1912) and Fatigue Study (1916).*

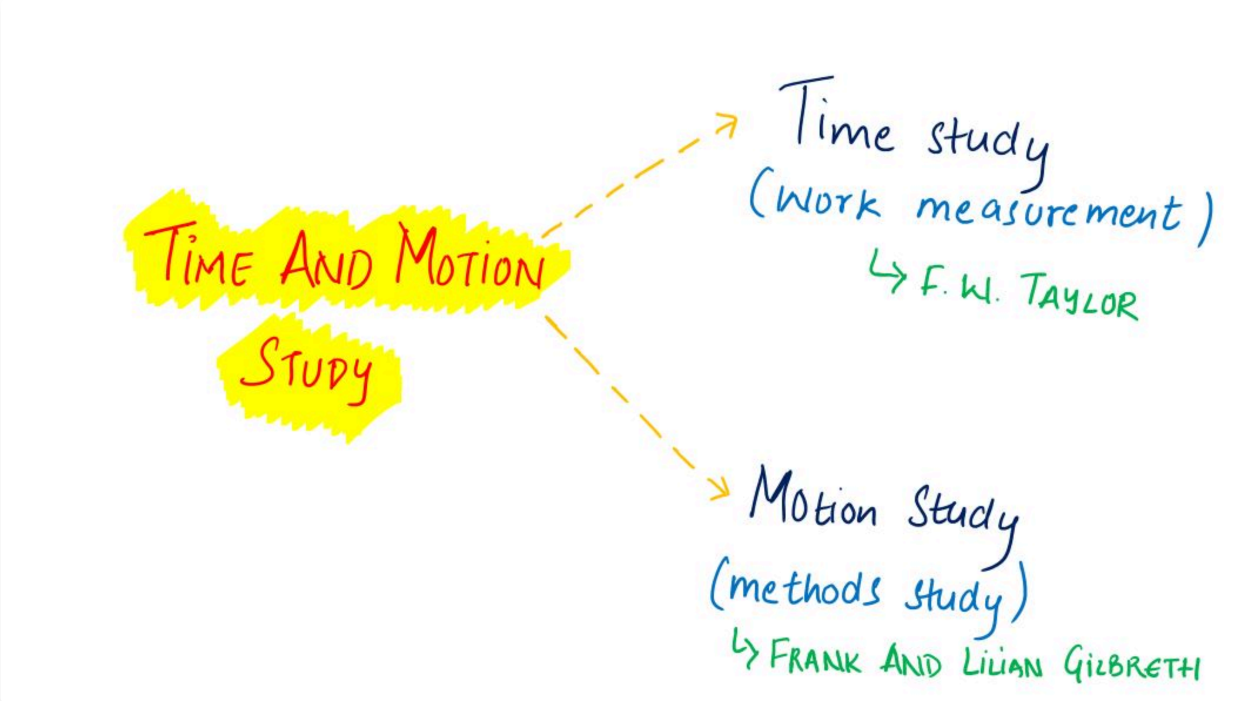
---

6. Scientific Management - other contributors

Lillian Gilbreth assisted her husband, **Frank Bunker Gilbreth** in publishing his works. As a psychologist, she added psychological implications of management. Her works include *The Psychology of Management (1914), The quest of the one best way (1918) and The Foreman and Manpower Management (1922).* She is referred as *First Lady of Management.*

---

6. Scientific Management - other contributors



A time and motion study (or time-motion study) is a business efficiency technique combining the *Time Study work of Frederick Winslow Taylor with the Motion Study work of* **Frank and Lillian Gilbreth**. It is a major part of scientific management. After its first introduction, time study developed in the direction of establishing standard times, while motion study evolved into a technique for improving work methods. The two techniques became integrated and refined into a widely accepted method applicable to the improvement and upgrading of work systems. This integrated approach to work system improvement is known as methods engineering.

1. Time Study (also called Work Measurement): Time study is a direct and continuous observation of a task, using a timekeeping device (e.g., decimal minute stopwatch, computer-assisted electronic stopwatch, and videotape camera) to record the time taken to accomplish a task.

2. Motion Studies (also called Methods Study): The Gilbreths made use of scientific insights to develop a study method based upon the analysis of work motions, consisting in part of filming the details of a worker's 'activities and their body posture while recording the time. His in depth analysis for the best method resulted in **Therblig's** which identified 17 basic elements. This method allowed the Gilbreths to build on the best elements of these work flows and to create a standardized best practice.

6. Scientific Management - other contributors

- Efficiency Engineering
- Emerson's efficiency plan

Emerson was expert in 'efficiency engineering'. He propounded 12 principles of efficiency to check the wastage of men, machine and materials in industrial sector. The major message in his principles was that "ideas-not land, labour, and capital generate wealth". Emerson applied staff principles to industrial organisation. He also devised an incentive system for workers, which is known as "Emerson's efficiency plan". Though Emerson was in correspondence with Taylor from 1903 on, he was not an associate or a disciple of Taylor's. He was an independent who developed during the years when scientific management was trying to get established.

6. Scientific Management - other contributors

Carl. G. Barth was working closely with Taylor on developing and testing the mechanism of scientific management. He worked on standards and waste. Taylor recognized Barth's "mathematical genius" for solving variables and complexities of metal cutting. Barth's developed *slide rules* which was a predecessor of computer.

6. Scientific Management - other contributors

Fredrick Halsey fundamentally disagreed with Towne's profit-sharing ideas because he thought that profits arose from many sources other than workers. He suggested Halsey's "premium plan" which called for a determination of the normal time for completing a job, with a premium rate (about one-third of the normal pay rate) paid the employee for the time saved. The plan guaranteed each worker a full day's pay plus the premium.

6. Scientific Management - other contributors

Robert Franklin Hoxie wrote two books; *Scientific Management and Labor* in 1915 and *Trade Unionism in the United States* in 1917. Hoxie’s principal contribution to the development of management was his probing and questioning the fundamentals of scientific management. The major point was that there was an essential incompatibility between the basic ideals of scientific management and those of trade unionism. He believed that scientific management could function successful only on the basis of constant and indefinite change of industrial conditions; while on the other hand, trade unionism could function successfully only through the maintenance of a fixed industrial situation and condition.

---

7. Administrative Theory by Fayol

Taylor and his co-workers were primarily concerned with problems at the operating level and did not emphasize managerial organisation and processes. It was French industrialist Henri Fayol who propounded for the first time a general theory of administration which had profound influence on European industry. He observed the organisational functioning from manager's point of view.

Henry Fayol is considered as the *Father of Modern Management.* His contribution is generally termed as process management and administrative management. Fayol looked at the problems from the top management point of view. He has used the term ‘administration’ instead of management, emphasizing that there is unity of science of administration. This administrative science can be applied equally well to public and private affairs. Therefore, management is a universal phenomenon.

Fayol has divided his approach of studying management into three parts;

1. Managerial qualities and training
2. General principles of management, and
3. Elements of management

Let us understand them one by one.

---

7. Administrative Theory by Fayol

Fayol Considered that manager must have following qualities:

- **Physical ability**: relating to health, vigour and ability to effectively address the people
- **Mental ability**: to understand and learn, judgment, mental vigour and adaptability
- **Moral ability**: energy, firmness, initiative, loyalty, tact and dignity
- **Educational ability**: General acquaintance with matter not belonging exclusively to the function performed
- **Technical ability**: Particular to function being performed
- **Experience**: Arising out of work

7. Administrative Theory by Fayol

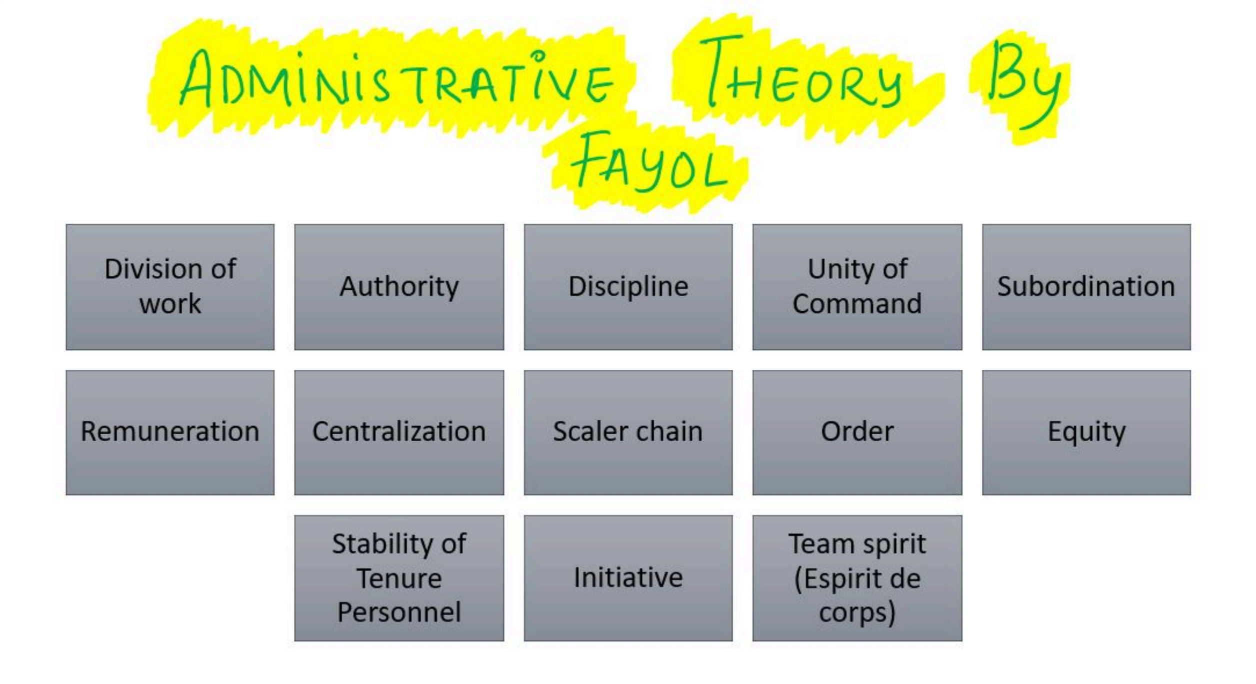
In order to develop managerial knowledge, he developed 14 principles of management, given below:

(i) Division of Labour

Fayol recommended that work of all types must be sub- divided and allotted to number of persons. Sub-division makes each task simpler and results in greater efficiency.

(ii) Parity of authority and responsibility

Authority refers to the right of a superior to give orders to subordinates, take decisions on specified matter, use the sources of organization. Responsibility on the other hand includes obligation with respect to the performance and achieving goals in a satisfactory manner. This principle suggests that giving authority without corresponding responsibility leads to arbitrary and unmindful use of authority. Authority relates to the power an individual acquire by virtue of his official position. Personal authority can also be derived from intelligence, moral worth and past experience of an individual.



(iii) Discipline

In the context of management means obedience, proper conduct in relation to others and complying with the rules and regulations of the organization. Smooth functioning needs discipline. Discipline is also self-imposed in relation to the work environment. If an individual does not display adequate self-discipline and if it has an adverse impact on the work then he should be warned, suspended, demoted or even dismissed depending upon the gravity of the indiscipline.

(iv) Unity of command

This principle states that subordinate should receive orders and be accountable to one and only one superior. It is necessary for stability, orderly functioning of the organization and accountability

(v) Unity of direction

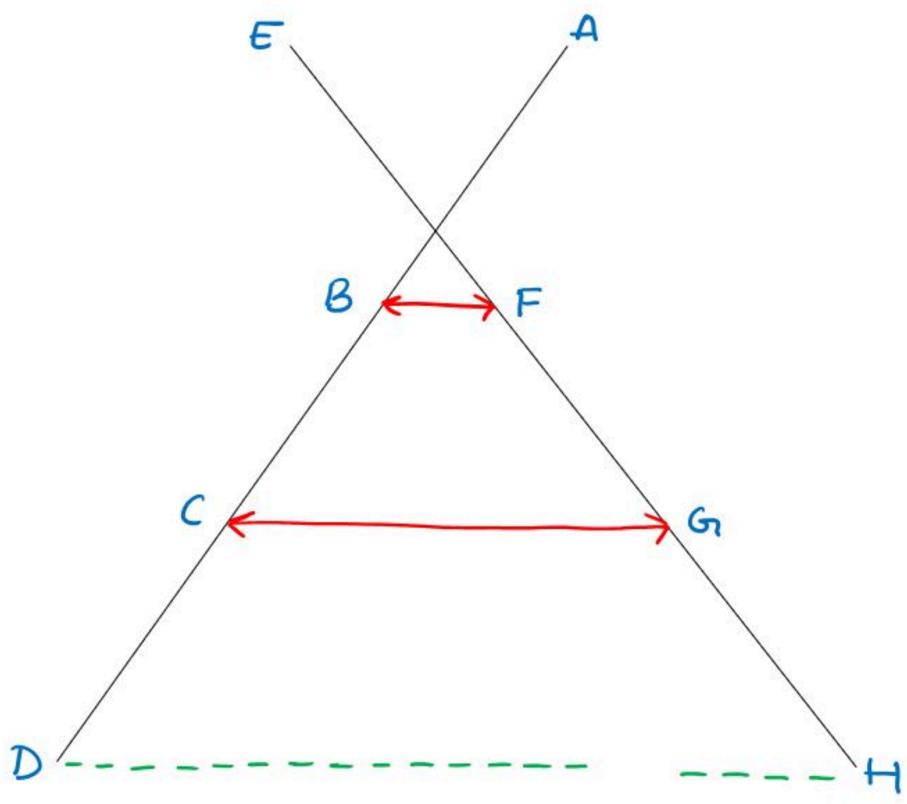
According to this principle, the efforts of all the members of the organization should be directed towards common goals. The principle seeks to ensure unity of action, coordination of strength and focusing of effects. For example, Production department should have a single plan and all must work to achieve specified goals in terms of quality and quantity.

(vi) Subordination of individual to general interest

What is in the interest of the organization as a whole must take precedence over the interest of individuals. The efforts should be to bring about convergence of general and individual interest. Organizational interests are common to all employees. These should be above the individual interests. All the employees must set an example and be fair in their dealings. Supervisory staff must be vigilant and carry out supervision of assigned job religiously.

(vii) Fair remuneration to employee

Remuneration of employee should be fair and reasonable. It should be decided on the basis of work assigned, cost of living, financial and position of business He recommends profit sharing by managers and not by workers. Fayol recommends non-financial incentives for workers.



(viii) Centralisation and decentralisation

Centralization means the concentration of all powers at the top level of management and decentralization means the authority or the power is shared by middle as well as low level of management. Degree of centralization and decentralization depends upon the size of the organization, experience of the superiors and ability of subordinates.

(ix) Scalar chain

Fayol defines scalar chain as the chain of superiors ranging from the top management to the lowest rank. The chain also determines the line of authority. The principle suggests that there should be a clear line of authority from top to bottom linking managers at all levels. It is a chain of command as well as communication. An employee (C) could speak to his counterpart (G) by cutting across the formal chain. Same way B could speak to F. This communication was necessary for organizational efficiency.

(x) Order

The principle is concerned with arrangement of things and placement of people. Arrangement of things—material order and arrangement of people—social order. The people should be assigned specific places of work and that they should be available there and things should be kept at allotted places.

(xi) Equity

It means, similar treatment is assigned to people at similar positions. For example, workers performing similar jobs should be paid the same wages. The performance should be judged on the same basis for the same category of employees. Equity is combination of justice and kindness. Equity is treatment to subordinates by their superiors for an exemplary behaviour. It brings loyalty in the organization. It requires good sense, good nature and devotion to duty.

(xii) Stability of tenure of personnel

Employees should not be moved from their positions frequently. Period of service in a position should be fixed. The individual should not be transferred often as it takes time to settle down in the new appointment. It does not mean that when an employee is due for promotion and a vacancy exists at a new place, should not be transferred. Individual interests must have priority over the other aspects of the organization.

(xiii) Initiative

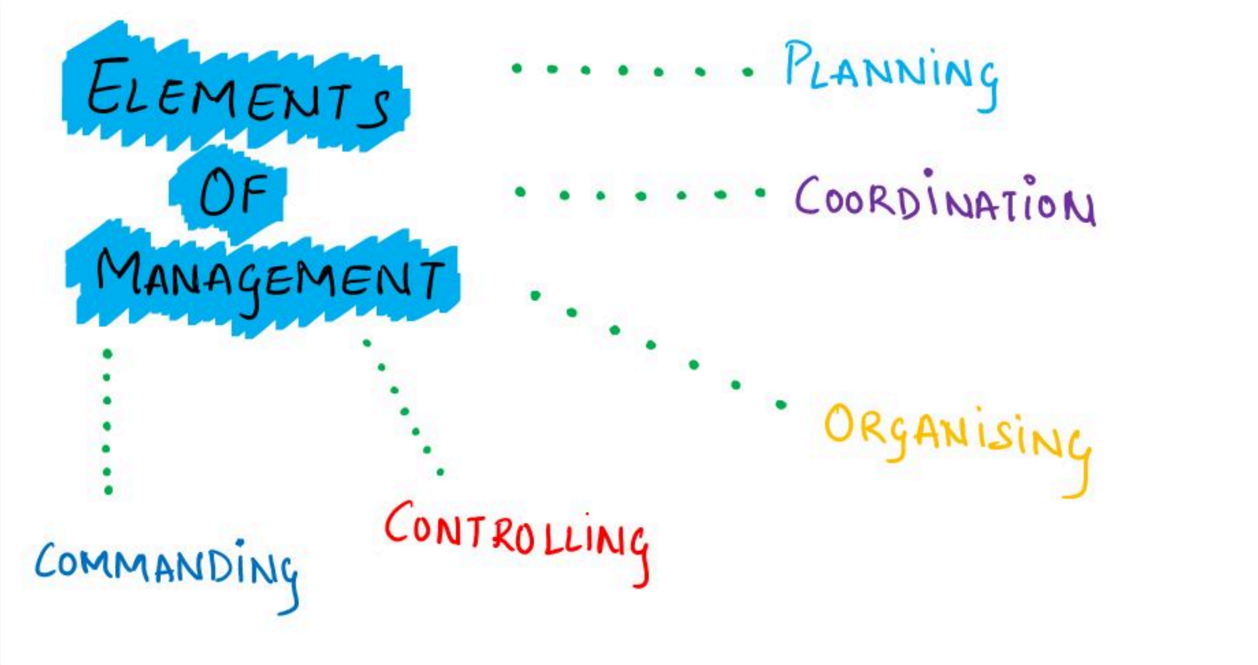
Employees at all levels should be allowed to take initiative in work related matters. Initiative means eagerness to initiate action without being asked to do so. However it does not imply freedom to whatever people like to do. Initiative increases zeal and energy.

(xiv) Esprit de corps

It refers to team-spirit that is harmony in work group and mutual understanding among workers. Managers must take steps to develop a sense of belonging among the members of the work group. If there is team-spirit then everyone comes forward to help each other. It must be remembered that 'union is strength'. Written explanation from erring member complicates matter and all issues should be resolved verbally.

---

7. Administrative Theory by Fayol



Fayol has regarded the 'Elements of Management' as principles of management. These elements or functions of management are discussed in brief.

1. Planning: It is the most important element or function of management and failure to plan leads to hesitation, false step and untimely changes in directions, which causes weakness in the organization.

2. Organising: It is the process of bringing together physical, financial and human resources and establishing productive relations among them for the achievement of specific goals.

3. Commanding: This function is necessary to execute plans. This function includes the influencing the behaviour and work of others in a group to the realization of specified goals in the given situation.

4. Coordination: Co-ordination as a function of management refers to the task of integrating the acts of separate units of an organization to accomplish the organizational goals effectively.

5. Controlling: Controlling refers to the process of ensuring that acts of subordinates and use of resources is in conformity with the pre-determined goals.

7. Administrative Theory by Fayol

Fayol found that activities of an industrial organization could be divided into 6 groups:

1. Technical – relating to production and maintenance

2. Commercial – buying, selling and exchange.

3. Financial – search for capital and its optimum utilization.

4. Security – protection of property and human beings

5. Accounting – accounting of stores and equipment. Statistics is also covered under accounting.

6. Managerial – activities include planning, organizing, commanding, coordinating and control.

Pointing out that these activities exist in business of every size, Fayol observed that the first Five were well known, and consequently he devoted most on his book to analyze the sixth one, that is, *managerial activity.*

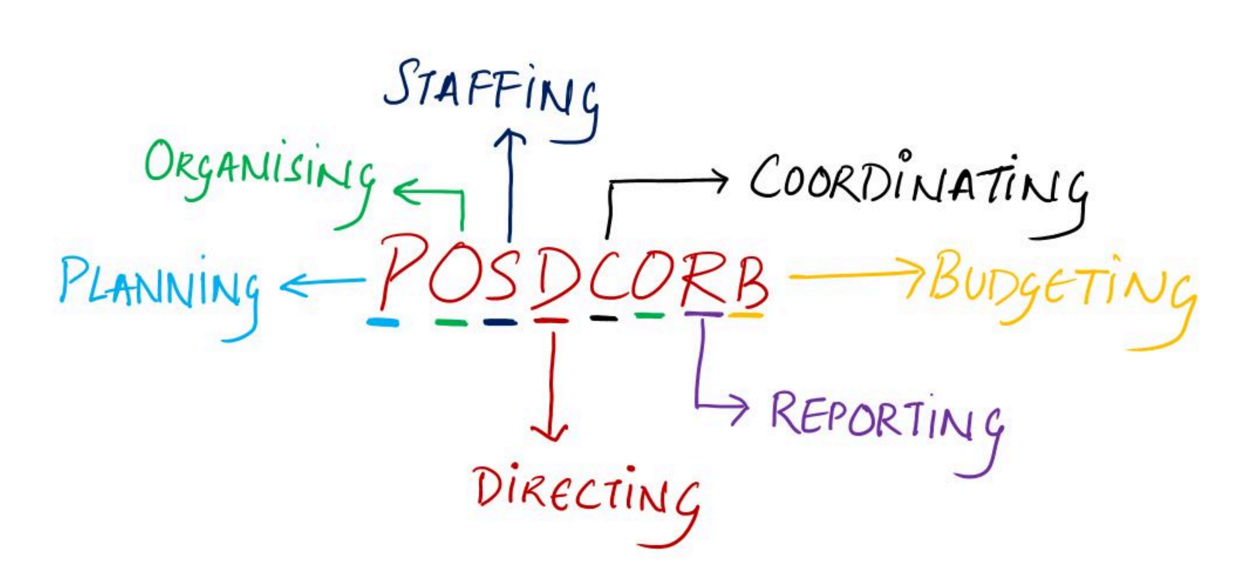
---

8. Other Contributors

Let us dicuss some of other contributors towards Administrative Approach.

---

8. Other Contributors



Luther Gulick and Lyndall Urwick are the prominent administrative thinkers of the "classic" theory of the management. Their book titled *Papers on the Science of Administration (1937)* is considered to be a significant contribution in the development of the science of administration.

Gulick expanded Fayol's definition of management comprising 5 elements (planning, organizing, staffing, directing, coordinating) and added 2 new elements, reporting and budgeting. Thus he coined a new word **POSDCORB**. It is made up of initial letters of 7 types of administrative activities.

Gulick and Urwick are better known for promoting general principles of administration, known as "neutral principles" directed at raising the level of organizational efficiency.

---

8. Other Contributors

Davis founded his management approach on the functions of planning, organizing, and an expanded control activity. He stressed the need for “Professional” managers who had a sound philosophy of management. He held a formalized view of management. His wrote *The Principles of Business Organisation and Operation.*

---

8. Other Contributors

Mary Parker Follet

- Mother of Modern Management
- Psychology and Sociology in Management
- Principles of Coordination
- Conflict Management

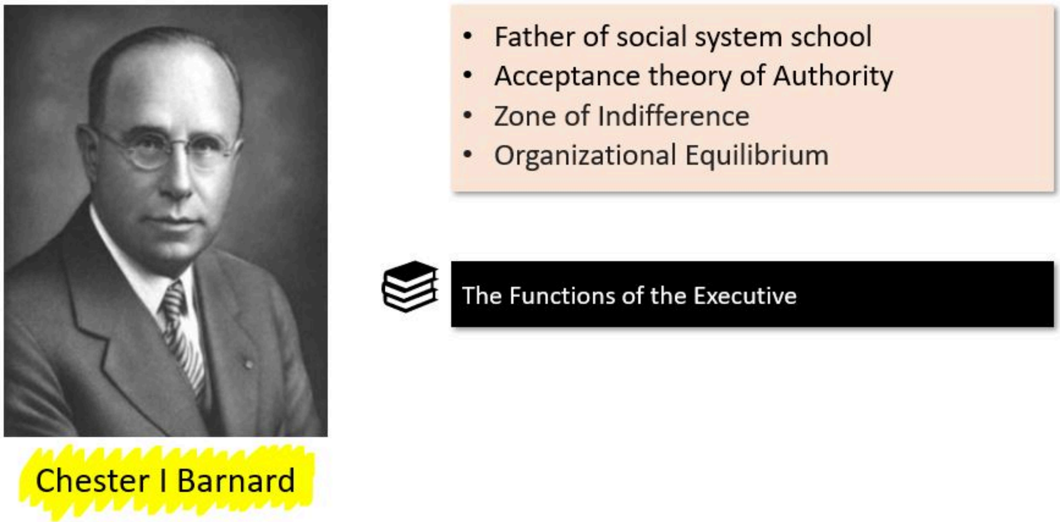
Another thinker associated with human relations movement is M. P. Follett. Follett interpreted classical management principles in terms of human factor. She wrote several papers which were collected in *'Dynamic Administration'*. Her published work on *Business Management as a Profession (1927)* reflects the great insights and the application of "Psychology and Sociology in Management". Mary Parker Follett, a social worker based in Boston's Roxbury neighborhood, made significant contributions to the field of organizations and management despite not having a formal management background. Her ideas on power, conflict, and leadership continue to influence our thinking in these areas.

Regarding power, Follett saw it as the capacity to get things done, and distinguished between power and authority. She also identified two types of power: power-over (dominance, coercion, and control) and power-with (jointly developed, cooperative power). Follett believed in the positive potential of power and saw it as central to organizations and management.

Follett's views on conflict were shaped by her concept of "Constructive Conflict." In her view, conflict was neither good nor bad, but simply a difference in opinions or interests. Rather than trying to avoid conflict, she argued that it should be managed in a way that leads to creative solutions. Follett identified three approaches to managing conflict: dominance, compromise, and integration of desires. The latter, integration of desires, involved finding a solution that fully met the goals of each party involved, unlocking creative potential and discovering new solutions.

Finally, Follett's views on leadership were a departure from the prevailing views of her time, which emphasized aggression and domination. Instead, she saw a leader as someone with a vision for the future, who could articulate a common purpose and focus the energies of the organization towards it. A good leader, in her view, had technical expertise, a deep understanding of the situation and its relationships, and the ability to make decisions with long-term effects. They also encouraged the development of leadership among their subordinates, sought active engagement from their followers, and exhibited qualities such as tenacity, steadfastness, tact, and steadiness in difficult times.

8. Other Contributors

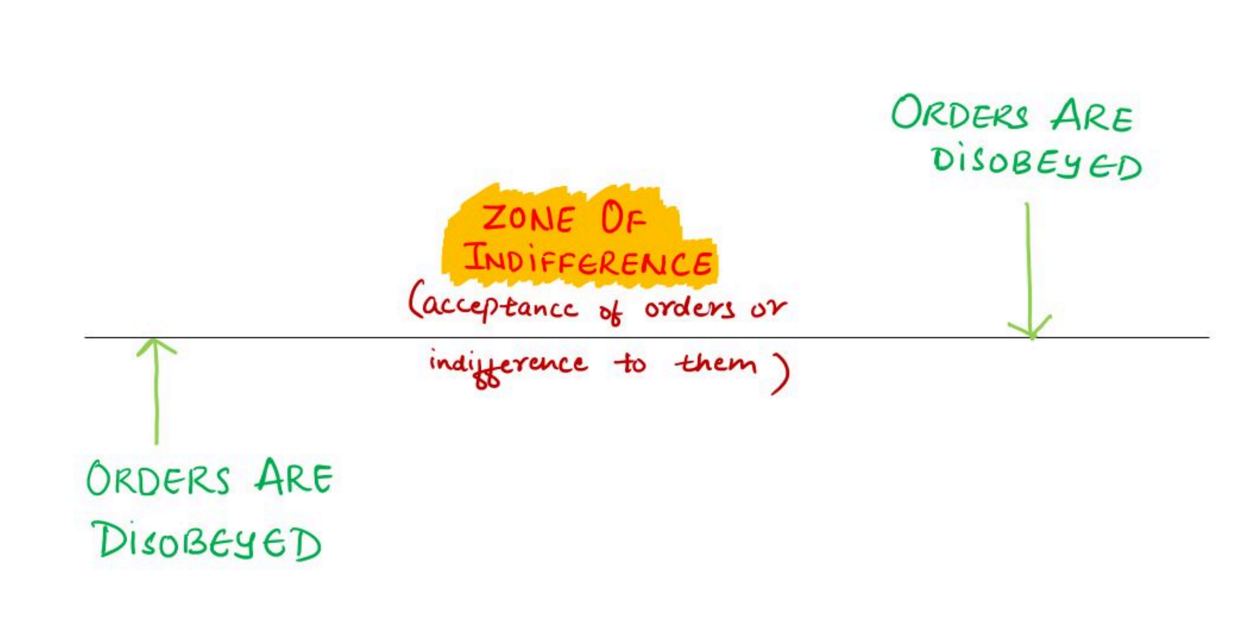


Chester I Barnard made a significant impact on the study of human organizations. In his theory, he outlined in his book "Functions of the Executive," Barnard took a sociological approach and placed great importance on leadership and communication. He divided organizations into formal and informal, recognizing that the informal structures within organizations are crucial to their success.

Chester Barnard is recognized as the **father of the social system school** of management thought. His work, particularly in his book "The Functions of the Executive," introduced the concept of a social system approach to management. Barnard emphasized the significance of social interactions, cooperation, and communication within organizations to achieve common goals and objectives. He viewed organizations as intricate social systems where human behavior and relationships play a pivotal role in determining organizational effectiveness.

One of Barnard's key contributions to organization theory was his distinction between two types of motivation in organizations: motivation to participate and motivation to perform. The *motivation to participate* is the reason individuals join and remain in an organization and *perform* at a minimum acceptable level. This minimum acceptable level varies from organization to organization and within the same organization. Managers can impact the motivation to participate by maintaining the balance between the inducements and contributions offered to employees.

Barnard also introduced the concept of the **zone of indifference**, which refers to the range of orders and directives that individuals will follow without question. Orders that fall outside of this zone, either because they are demeaning or unethical, will be met with resistance. Managers have the ability to shape the width of this zone by adjusting the inducements offered in exchange for contributions.



In conclusion, Barnard's work on organization theory highlights the important role of leadership, communication, and motivation in the success of organizations.

---

9. Neoclassical Theory

The classical approach stressed upon the formal organization. It was mechanistic and ignored major aspects of human nature. In contrast, the neoclassical approach introduced an "informal organization structure" and emphasized the following principles:

- **The individual**: An individual is not a mechanical tool but a distinct social being, with aspirations beyond mere fulfillment of a few economic and security works. Individuals differ from each other in pursuing these desires. Thus, an individual should be recognized as interacting with social and economic factors.
- **The work group:** The neoclassical approach highlighted the social facets of work groups or informal organizations that operate within a formal organization. The concept of 'group' and its synergistic benefits were considered important.
- **Participative management**: Participative management or decision making permits workers to participate in the decision making process. This was a new form of management to ensure increases in productivity.

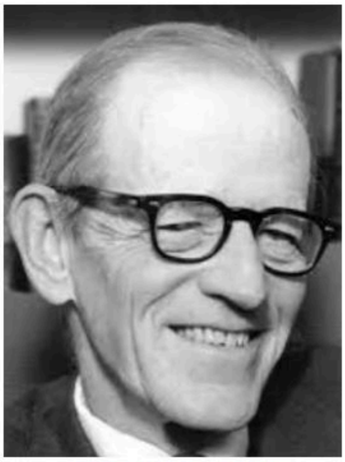
Note: Taylor's 'scientific management' focuses on work, whereas the neoclassical approach focuses on workers. Neo-classical theory deals with the human factor. This approach was first highlighted by the improvements known as 'Hawthrone Experiments'. Elton Mayo and Mary Parker Follett, Hugo Munsterberg, Fritz Roethlisberger are the main contributors of Human Relations Movement.

Neo-classical theories also include Behavioural Science Management which is a further refinement of human relations approach. The main proponents of Behavioural science were Abraham Maslow, Douglas McGregor, Rensis Likert, Chester I. Barnard, Schein, Mc Clelland, Argyris.

---

10. Hawthorne Experiments

The Hawthorne experiments were groundbreaking studies in "Human Relations" that were conducted between 1924 and 1932 at Western Electric Company's Hawthorne Works in Chicago. Originally designed as illumination studies to determine the relationship between lighting and productivity, the initial tests were sponsored by the National Research Council (NRC) of the National Academy of Sciences.



Elton Mayo

F. J. Roethlisberger

In 1927, a research team from the Harvard Business School (led by Elton Mayo and F. J. Roethlisberger) was invited to join the studies after the illumination tests drew unanticipated results.

Two additional series of tests, the relay-assembly tests and the bank-wiring tests, followed the illumination tests. The studies assumed the label Hawthorne experiments or studies from the location of the Western Electric plant.

Concluded by 1932, the Hawthorne studies, with emphasis on a new interpretation of group behavior, were the basis for the "School of Human Relations".

Mayo's Major Works are:

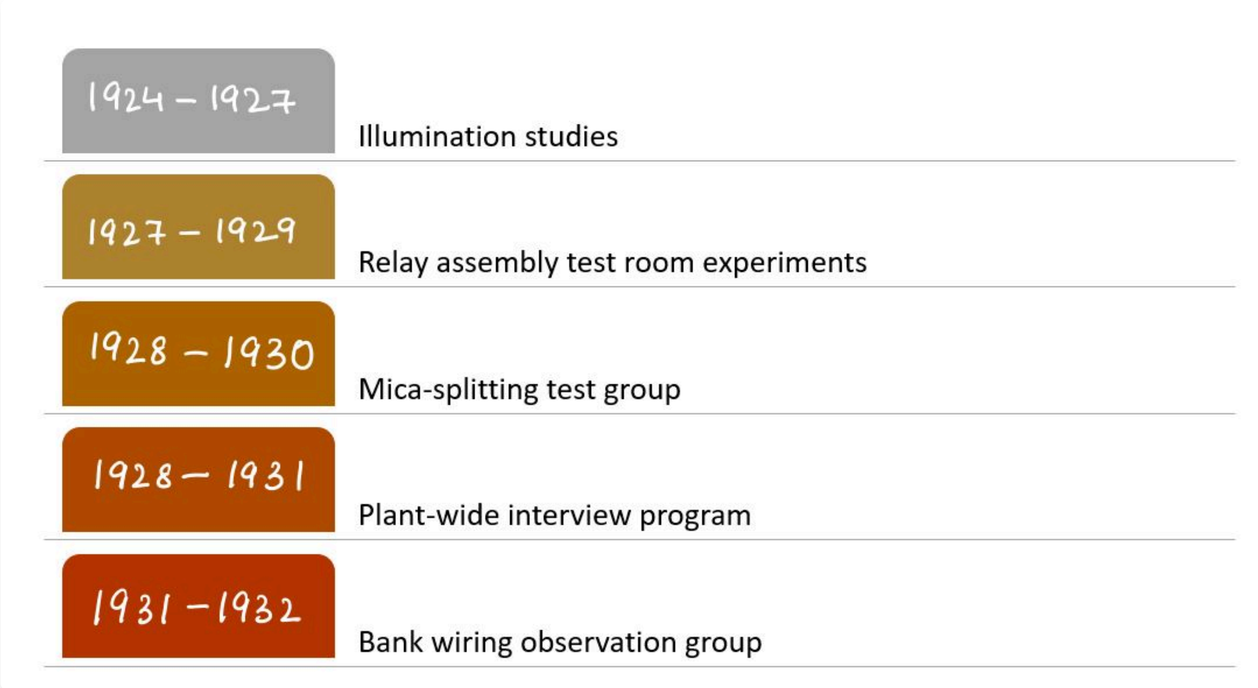
- The Human Problems of an Industrial Civilization (1933)
- The Social Problems of an Industrial Civilization (1945)

- The Political Problem of Industrial Civilization (1947) (Incomplete at the time of his retirement).

  Roethlisberger's Major Works are:

- Management and the Worker (1939), written in collaboration with William J. Dickson
- Management and Morale (1941)
- Training for Human Relations (1954)

10. Hawthorne Experiments



Hawthorne experiments were conducted in a series of phases, which are discussed next.

1. Illumination Studies (1924-1927)

The first phase of the Hawthorne experiments was focused on studying the relationship between light intensity and worker efficiency. The initial findings showed that worker behavior was not only physiological but also psychological and there was no consistent correlation between lighting levels and productivity. This was a break from the Scientific Management School that saw work productivity as "mechanical", and led to the decision to learn more about worker behavior.

2. Relay Assembly Test Room Experiments (1927-1929)

An experimental group was established of five young women from the Relay Assembly room of the plant. Hawthorne engineers led by George Pennock were the primary researchers for the relay-assembly tests. The experiments involved the manipulation of a number of factors, to include pay incentives, length of workday and workweek, and use of rest periods, to measure impact on productivity and fatigue. Again, the relationship between pay, incentives, rest, and working hours seemed to have little effect on productivity, even when the original, more demanding conditions were re-implemented. They concluded factors such as lighting, hours of work, rest periods, bonus incentives, and supervision affected workers, but the attitudes of the employees experiencing the factors were of greater significance.

3. Mica-Splitting Test Group (1928-1930)

In an effort to understand the relationship between rewards and incentives and worker performance, a second experiment was conducted with workers in the Mica-Splitting Room. The researchers held the workers' piece wages constant while varying work conditions and found that productivity increased by about 15%. The researchers concluded that productivity was affected by non-pay considerations and the social dynamics of the group were the basis of worker performance.

4. Plant-wide Interview Program (1928-1931)

From 1928 to 1931, more than 21,000 individuals were interviewed to survey worker morale. The objective was to identify areas where improvements might lead to greater job satisfaction and efficiency. The findings showed that a complex battery of attitudes influenced worker attitudes and outside factors such as conditions at home or within the community and one's social situation at work played a role. The one consistent conclusion was that employees felt more positive about the work environment when an interviewer showed interest.

5. Bank Wiring Observation Group (1931-1932)

The foreman of the bank-wiring department resisted the intrusion of observers into his work space and a bank-wiring test room was set up. The test room housed nine wirers, three solderers, and two inspectors. All were male between the ages of 20 and

25. Their job was to wire conductor banks, a repetitive and monotonous task. The purpose of the bank-wiring tests was to observe and study social relationships and social structures within a group, issues raised by two other significant members of the research team, W. Lloyd Warner and William J. Dickson. Warner was on Mayo's Harvard team, trained as an anthropologist and primarily interested in Hawthorne from an entirely different perspective, that of an observer of the social behavior of a group. Dickson was a Hawthorne employee. The study findings confirmed the complexity of group relations and stressed the expectations of the group over an individual's preference. The conclusion was to tie the importance of what workers felt about one another to worker motivation.

The Hawthorne experiments clearly showed that a man at work is motivated by more than the satisfaction of economic needs. Management should recognise that people are essentially social beings and not merely economic beings. As a social being, they are members of a group and the management should try to understand group attitudes and group psychology.

Several important published works grew out of the Hawthorne experience, foremost of which was Mayo's *The Human Problems of an Industrial Civilization* and Roethlisberger and Dickson's *Management and the Worker. Human Side of Enterprise* was written by Douglas McGregor.

10. Hawthorne Experiments

The Hawthorne experiments clearly showed that a man at work is motivated by more than the satisfaction of economic needs. Management should recognise that people are essentially social beings and not merely economic beings. As a social being, they are members of a group and the management should try to understand group attitudes and group psychology.

Following were the conclusions drawn from Hawthorne Experiments:

1. Social Unit - A factory is not only a tech no-economic unit, but also a social unit. Men are social beings. The social and psychological factors are responsible for workers' productivity and job satisfaction. Only good physical working conditions are not enough to increase productivity. The output increased in Relay Room due to effectively functioning of social group with a warm relationship with its supervisors.

2. Group Influence - Work is a group activity. Work groups are created formally by the employer but also occur informally. The workers in a group develop a common psychological bond uniting them as a group in the form of informal organisation. The informal relations among workers influence the workers' behaviour and performance more than the formal relations in the organisation.

3. Motivation - Human and social motivation can play even a greater role than mere monetary incentives in moving or motivating and managing employee groups. Financial incentives alone cannot increase the performance. Workers are motivated by recognition, security and a sense of belonging.

4. Supervision - A supervisor who is friendly with his workers and takes interest in their social problems can get co-operation and better results from the subordinates. Employees will work more efficiently, when they believe that the management is interested in their welfare.

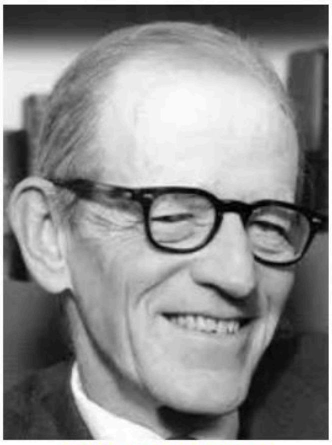
5. Participative Working Conditions - Special attention and freedom to express their views will improve the performance of the workers. Employees will perform better if they are allowed to participate in decision-making affecting their interests.

6. Employee Morale - Mayo pointed out that workers were not simply cog in the machinery, instead the employee morale (both individual and in groups) can have profound effects on productivity. When employees are treated with respect and dignity, their performance will improve.

7. Communication - Experiments have shown that the output increases when workers are explained the logic behind various decisions. The communication between workers and management influences workers’ morale and productivity.

8. Balanced Approach - The problem of workers could not be solved by taking only one factor into consideration. A balanced approach to the whole situation can show better results.

10. Hawthorne Experiments



Elton Mayo

- Father of Human Relations Movement
- Scientific Management is Rabble hypothesis
- Started Hawthorne Experiments

The Human Problems of an Industrial Civilization (1933)

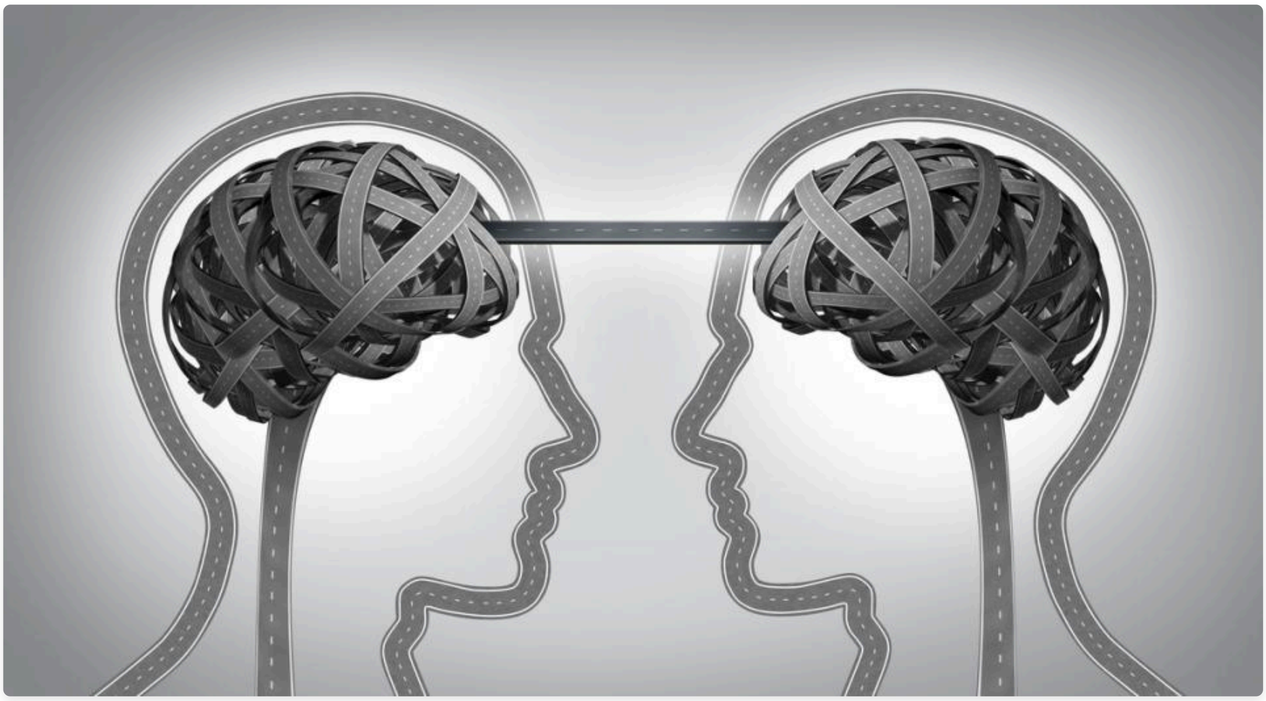
F. J. Roethlisberger

Management and the Worker (1939), written in collaboration with William J. Dickson

Elton Mayo came to known as *Father of Human Relations Movement.* He presented his findings on Hawthorne Experiments in his famous book *The Human Problems of An Industrial Civilizations (1933).* His work stressed the importance of the 'informal' organization of interpersonal relations that surround the formal structure of work organization stressed by administrative theory. He criticized the so-called **rabble hypothesis** that social order requires hierarchical control (Classical theorists thinking). Instead, co-operation is seen as an inherent and necessary condition for society, but is obstructed by slow adaptation to technical change—which management can resolve by fostering appropriate social skills in the workforce.

Briefly, the characteristics of man in rabble hypothesis are: (i) Man is disorganized and works primarily for his personal ends. (ii) Given adequate incentive he could be made to do what the manager desires of him. It is clear how this concept of man had been variously described as the economic man or the machine man by classical theorists.

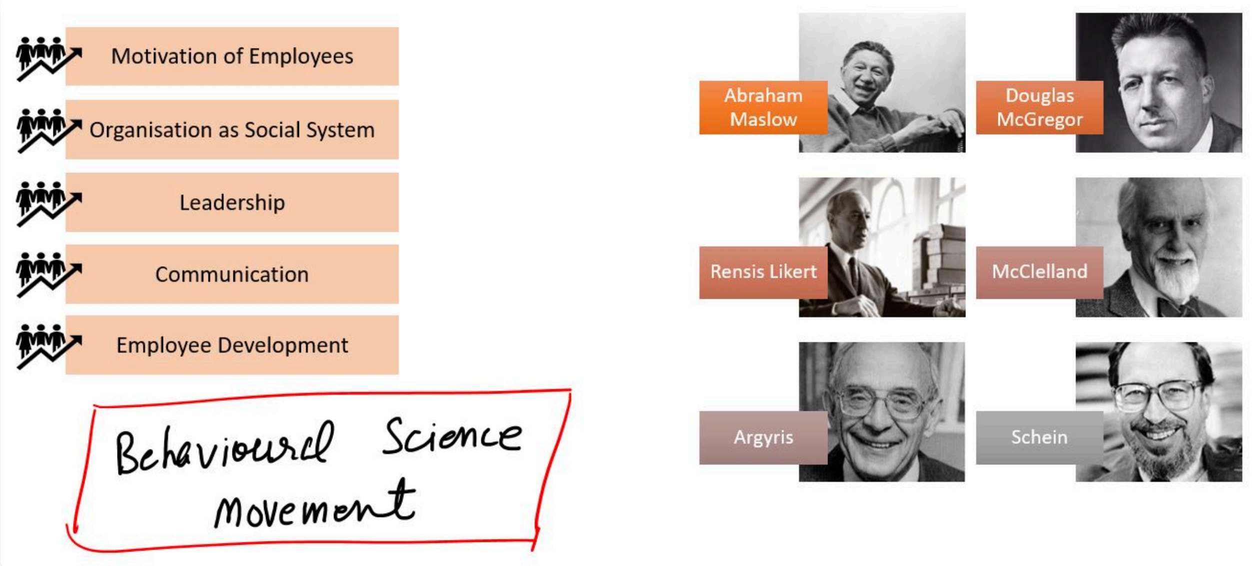
10. Hawthorne Experiments



There is an unwritten understanding between the worker and employer regarding what is expected from them. This is called the *Psychological Contract.* This sets out mutual expectations – what management expects from workers, and vice versa. Management is expected to treat employees justly, provide acceptable working conditions, clearly communicate what is a fair day's work, and give feedback on how well the employee is doing. Employees are expected to respond by demonstrating a good attitude, following directions, and showing loyalty to the organization.

11. Behavioural Science Movement

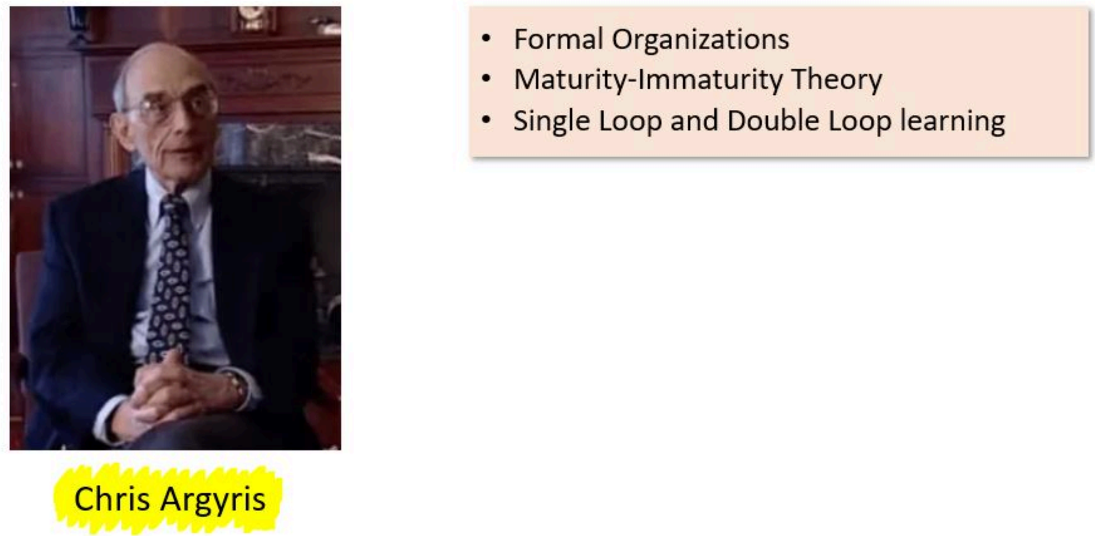
The Behavioural Science Movement was a more comprehensive evolution of the Human Relations Movement, encompassing a wider range of interpersonal roles and responsibilities. It focused on using the methods and findings of psychology and sociology to understand organizational behavior.



Key aspects of this approach included:

1. Employee motivation to enhance productivity.
2. The organization as a social system.
3. Leadership-studying managerial behavior.
4. Improved communication within the organization.
5. Employee development-enhancing employee and managerial skills.

11. Behavioural Science Movement



Argyris has criticized the 'classic' theory of organization for creating inconsistencies between the requirements of Chris Argyris, a prominent figure in the field of organizational behavior, has expressed his criticisms against the classical theory of organizations. He believes that this theory creates a discrepancy between the needs of the organization and the personal growth of its employees.

Argyris points out that formal organizations tend to simplify tasks into specialized routines and emphasize controlling the actions of employees through supervision, rather than empowering them. As a result, specialists and subunits in the organization prioritize their own goals over those of the organization and its members, leading to a lack of initiative and creativity.

The main focus of Argyris' research is to understand the dynamics of human relationships within an organization. He asserts that every individual in the organization has the potential for self-realization and personal growth, which not only benefits the individual but also the organization and the environment in which they work.

Argyris' Major Works are:

1. Personality and Organization (1957)
2. Understanding Organizational Behaviour (1960)
3. Interpersonal Competence and Organizational Effectiveness (1964)
4. Integrating the Individual and the Organization (1965)
5. Organization and Innovation (1965)
6. Reasoning, learning, Action (1982)

11. Behavioural Science Movement

Argyris and E. Wight Bakke have developed what is known as **Fusion Process theory**. They conducted extensive empirical researches for developing a new theoretical framework for organizations. From these researches emerged the fusion process theory of organization.

The concept fundamental to this theory is that both individuals and organizations are entities trying for self-realization. In this, an organization attempts to shape all the individuals who join it, and an individual who joins an organization likewise tries to shape it. Thus, two behaviour processes operate simultaneously in a situation. These are called "the socializing process" and "the personalizing process." The socializing process is that by which individuals are made into agents of the organization. In the personalizing process, on the other hand, organizational groups are made into agencies for the individual self- actualization.

Indeed, the fusion process is the simultaneous operation of both socializing and personalizing processes. Argyris says that both individuals and organizations are discrete organized systems each striving for self-actualization. He has even used the term 'organization' to include "all the behaviour of all the participants in a group undertaking."

---

12. Modern Theories

Modern theories tend to be based on the concept that the organization is a system which has to adapt to changes in its environment. In modern theory, an organization is defined as a designed and structured process in which individuals interact for objectives. Let us discuss important modern theories.

Different approaches of modern management are

1. Systems Approach
2. Quantitative Approach
3. Contingency Approach
4. Socio-Technical Approach
5. Learning organization

Let us discuss them one by one.

---

13. Systems Approach

A basic limitation of the classical and human relations approaches is that they did not give sufficient emphasis to the problem of interrelationship or integration of activity.

Classical theory was concerned more with the separation of activities into tasks or operational units and generally emphasised parts and segments of the organisation. Human relations theory aimed at interjecting human motivations, aspirations, and desires.

The modern systems approach tends to treat organisation as a system of mutually dependent parts and variables and it is thought as a social system.

In the 1960, an approach to management appeared which try to unify the prior schools of thought. This approach is commonly known as 'Systems Approach'. Its early contributors include Ludwing Von Bertalanfty, Lawrence J. Henderson, W.G. Scott, Deniel Katz, Robert L. Kahn, W. Buckley and J.D. Thompson. Systems Theory was introduced by a biologist Von Bertalanffy (1950) and was introduced into the organisational setting by Katz and Kahn (1966).

The Systems Approach views an organization as a system of interrelated and interdependent parts and variables, treating it as a social system.

---

13. Systems Approach

The features of Systems Approach are listed below:

(i) A system consists of interacting elements. It is set of inter-related and inter-dependent parts arranged in a manner that produces a unified whole.

(ii) The various sub-systems should be studied in their inter-relationships rather, than in isolation from each other.

(iii) An organisational system has a boundary that determines which parts are internal and which are external.

(iv) A system does not exist in a vacuum. It receives information, material and energy from other systems as inputs. These inputs undergo a transformation process within a system and leave the system as output to other systems.

(v) An organisation is a dynamic system as it is responsive to its environment. It is vulnerable to change in its environment.

---

13. Systems Approach

The Systems Theory has a rich history of evolution, starting with the introduction of the term 'system' by **Ludwig Von Bertalanfty** in the 20th century. He proposed the 'Theory of Open System', which provided methodological principles for the study of systems. This led to the development of the 'General System Approach' and the application of systems thinking as a major scientific movement.

In the social sciences, the concept of systems was further developed by **Talcott Parsons** in the mid-20th century.

Daniel Katz and Robert L. Kahn have drawn common characteristics of an open system assuming organisations as an open system.

Organizations as open systems import energy from their environment, transform it into a product, and export the product back into the environment. They also exhibit negative entropy, feedback, homeostasis, differentiation, and equifinality. The principle of negative entropy states that systems must import more energy than they expend to maintain their internal order. Feedback enables the system to correct for its own malfunctions or changes in the environment and maintain a dynamic balance. Systems also tend towards differentiation and elaboration and can reach the same final state from different initial conditions and paths of development, a principle known as equifinality.

They believed that the following characteristics seemed to define all open systems:

1. **Interdependent parts**: An open system consists of interacting elements that are inter-related and inter-dependent, forming a unified whole.
2. **Inter-relationships of sub-systems**: The various sub-systems within the open system should be studied in terms of their inter-relationships, rather than in isolation.
3. **Defined boundary**: An open system has a defined boundary that distinguishes its internal and external parts.
4. **Inputs and outputs**: An open system receives inputs in the form of information, materials and energy from other systems and transforms these inputs into outputs that are then supplied to other systems.
5. **Responsiveness to the environment**: An open system is dynamic and responsive to changes in its environment.
6. **Negative entropy**: An open system imports more energy than it expends and thus maintains its internal order through the importation of energy from the environment.
7. **Feedback**: An open system receives information as a type of input and uses feedback to correct for any malfunctioning or changes in its environment.
8. **Homeostasis**: An open system maintains a steady state or balance through the use of feedback to correct for changes.
9. **Differentiation and elaboration**: Open systems tend towards differentiation and elaboration due to their dynamic nature and growth requirements for survival.
10. **Equifinality**: An open system can reach the same final state through different initial conditions and paths of development.