

Raju's Furniture Business

Mr. Raju Raman had a family consisting of his wife and two children. He was a carpenter who used to work on daily wages. In the spare time, he used to make tables and sell it to his neighbours and in the local area. After 10 years of hard work as a daily wage labourer who worked for others, he thought he will stop doing it and make and sell tables on a full-time basis. He hired a small room for Rs. 3000 a month, bought some electric saws and other tools with the saving he had made, asked his wife and son to help him. He then went around various furniture shops and told them that he makes tables to order and gave them his mobile number.

Soon orders started to flow and Raju decided to call his two carpenter friends, Shyam and Sanju, to come and work for him on a daily basis but offered them Rs. 350 per day instead of the market rate of Rs. 400. They were happy as they had work daily and could do it in an organised manner under one person. As the work grew, he told them that he will pay them a daily wage of Rs. 350 and an additional of Rs. 50 per table they made. They worked hard and often late into the evening and on an average made Rs. 500 a day as it was easy making a table to clear specifications and using the electric tools rather than sweat it out in the backyard of someone as a casual labourer sawing away with their handsaws. Despite their long hours, they could not complete the order.

Hence, Raju hired 4 more carpenters and made his friend Shyam to take charge of making tables with two newly hired carpenters and Sanju to take charge of making chairs with the other two newly hired carpenters. In addition, he hired Pankaj to buy wood and other fitments, take the finished tables and chairs to various stores, collect the money, pay electricity bills, and other odd jobs outside the shop.

The cost of wood suddenly rose, and his traditional timber mill owner explained to him how the increase in cost of diesel has resulted in increased cost of transportation. He could understand that since the tempo owner who takes his finished products to various stores too had hiked the cost of trips. Fortunately, one engineering college was coming up near his shop and their demand for tables and chairs seemed to be ever increasing. Raju pitched in showing how he made the very same furniture for big furniture shops in the city and how he could provide them these at a lower cost if they gave him bulk orders. As he saw growth, he put together a team to make new products for the colleges so that they can be modular, strong to withstand the rough use by students, low cost, and with good aesthetics and called this team 'creative team'. Of course, the members of the creative team were select carpenters and his favorite Pankaj who by now had three assistants and had mastered the business of marketing and pricing of the products and book keeping to an extent.

Social system

The social system was created by Raju and his friends who later became his employees as well as the employees who joined later. In larger businesses, there will be people from diverse backgrounds of education, gender, religion, region, etc. They form the social system.

Business is actually something that society has created for itself to make things simpler to fulfill its needs and wants. Therefore, we must accept that it is a social system and it is the social system and not business itself that dictates how a business is to be done at a macro level. This is done through social pressures such as the ones created by NGOs and environmental groups and also through legislation by the representatives of the people, etc. So, though a business is an economic entity, we should not forget that it is the society which gives it sanctity.

Society, through its government, can change the rules of business and say that you can bring in foreign direct investment in this business, but not that business, etc. because a business is an organisation that the society has created to fulfill its needs. If it does not do so, the society tends to control it and even close it down. This is not to say that society and government interferes in everything. In fact, society gives business a lot of freedom, because in doing so, competition takes place, the cost goes down, quality goes up, and the society's need is better fulfilled. If you think of mobile phones, you will see how this freedom has helped the society. You can also see how when this led to corruption, another system called the judicial system (also created by the society) intervened on behalf of the society and cancelled about 122 licenses. Every business and young leaders of such business which you are or soon will be must understand and accept this power of the society and that business organisations are its creation and will exist only if it fulfills its purpose.

Goal

The goal of the social system in the case we discussed was to make tables and chairs and earn better wages and have better working condition than working as daily wage carpenters. All businesses, whether big or small, have a goal. Society too has a goal. The goals of the society are not only to have tables and chairs but also employment and prosperity. All organisations will have a goal. It may be implicit in small organisations and often well expressed in larger ones. This is usually done through a vision and mission statement.

Structure and management

There were teams of carpenters and one person for purchase and delivery. Whenever the organisation is large, we need to create a way of doing work systematically. For example, we can have each carpenter buy the wood and materials, make a table and then go and sell it. We can also have one carpenter cut all the pieces of wood to size, another assemble it, a non-carpenter do the purchase and sales, etc. If we group similar work, it is possible for us to be more efficient. So creating a structure is about grouping similar works and doing it.

If you recall, Raju as a person, who bought wood, made tables, and sold to the neighbourhood or even the shops in the city, is very different from the Raju who created teams to make tables and chairs and teams to sell them. You can see how structuring has increased the productivity but also brought in other jobs such as specialised jobs of purchasing wood, selling, book keeping, etc.

Ongoing

The business was growing and is intended to go on forever. In fact, though businesses die, they are designed to be ongoing forever. It dies only because we do not care for some of its structures and systems. Had Raju not made the systems and grew, perhaps as he got old, his shop would have closed down too. It is impossible to imagine that his son would have continued to be a one man carpenter after his father, but it is easily possible to imagine his son, running a multi location furniture shop building upon what Raju has created. This is called the 'Ongoing' concept.

Relationship

Relationship existed between the table team head and the two carpenters and the chair team and its head and Raju. You can see that, in larger organisations, there will be several such relationships. Here we are referring to the workplace relationship.

Subdivides the roles

The roles of table making, chair making, purchase, etc. are clear cases of subdividing the roles.

Open System

The cost was negatively affected by fuel price increase and the sale was positively affected by the engineering college, both of which are outside Raju's furniture manufacturing system. This is because it is an open system and is affected by other external systems. This also creates opportunities (engineering college) and threats (increase in the cost of wood and delivery cost of finished goods).

If we have understood what a simple organisation is, let us think of an organisation like Tata. It has over 150 businesses and each business has hundreds of roles and functions and therefore, it is highly complex, but this complex organisation too has the same ingredients as the ones mentioned above. The increased complexity makes it more difficult to manage. Managers and leaders are trained to manage this complexity, but the basic principles remain the same.