



ALAGAPPA UNIVERSITY

[Accredited with 'A+' Grade by NAAC (CGPA:3.64) in the Third Cycle
and Graded as Category-I University by MHRD-UGC]

KARAIKUDI – 630 003

DIRECTORATE OF DISTANCE EDUCATION



**M.A. [PM & IR]
308 11**



PRINCIPLES OF MANAGEMENT

I - Semester



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(A State University Established by the Government of Tamil Nadu)

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PRINCIPLES OF MANAGEMENT

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Principles of Management

Syllabi	Mapping in Book
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INTRODUCTION

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Organizations around the world are remodeling themselves as they respond to the challenges presented by the global economy. Success in today's competitive business environment is increasingly a result of effective human resource management. Structure and technology can be easily duplicated. The factor that can set apart an organization, whether in manufacturing or services, or in the private or public sector—is its people.

Today's managers face a complex web of difficult and exciting challenges. No longer does a manager sit in an ivory tower and issue directives from a distance. The traditional authority structure is giving way to employee involvement, work teams, group spirit, participative decision-making, lateral relationships, flexible work structures and more. The management is becoming more and more aware that an organization has no life but for the people in it. Accordingly, it is becoming more and more people-oriented as against task-oriented of the previous years. The job of a manager is one of the most rewarding, most exciting and most challenging of professions. Effective managers are effective leaders who can (and do) make significant contributions to society through the output of their industrial or service organizations such as businesses, universities, hospitals, government agencies and so on.

This book, *Principles of Management*, has been organized into four different areas. The first part discusses the basic concepts of management including the meaning, patterns and theories of management. It also covers the concept of planning and decision making. The Second part covers the concept of recruitment and selection as well as the broad ideas of organizational structure and motivation theories. The third part discusses the major functions of management including directing, communicating and co-ordination and the fourth part discusses the business ethics and the new perspectives in management.

This book, *Principles of Management*, is written with the distance learning student in mind. It is presented in a user-friendly format using a clear, lucid language. Each unit contains an Introduction and a list of Objectives to prepare the student for what to expect in the text. At the end of each unit are a Summary and a list of Key Words, to aid in recollection of concepts learnt. All units contain Self-Assessment Questions and Exercises, and strategically placed Check Your Progress questions so the student can keep track of what has been discussed.

BLOCK I
BASIC CONCEPTS OF MANAGEMENT

*Introduction to
Management*

**UNIT 1 INTRODUCTION TO
MANAGEMENT**

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Structure

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1.0 INTRODUCTION

Management is essential for an organized life and is significant for the smooth functioning of an organization. Good management is considered the backbone of successful organizations. Managing life means getting things done to achieve life's objectives and managing an organization means getting things done with and through other people to achieve its objectives. In this unit, you will learn about the nature, scope and need of management.

The practice of management is as old as human civilization. However, the study of management in a systematic and scientific way as a distinct body of knowledge is only of recent origin. In this unit, you will learn about the overall concept of management, the evolution of management, the management thought in modern trend, and the relationship between management and society. In this unit, you will learn the concept of management in detail.

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1.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the nature, scope and functions for management
- Explain the relationship between management and administration
- Identify whether management is a science or an art
- Analyse the skills, roles and responsibilities of a manager
- Realize the social and ethical responsibilities of business

1.2 MANAGEMENT: DEFINITION

Management is the act and science of getting things done by proper planning, organizing, directing, coordinating and control. Management in some form or another is an integral part of living and is essential wherever human efforts are to be undertaken to achieve desired objectives. The basic ingredients of management are always at play whether we manage our lives or our business.

A study of various people around the world shows good examples of organizational structures and organizational evolution over the years. A village open market in a tribe and a large department store in a modern city serve the same needs in a similar fashion, which is putting together things that people need. While the tribal organization was simple in nature, the modern organization is much more sophisticated and complex with many technological innovations. However, the basic form of management and organizational structure seem to have existed since the beginning of organized human activity.

Management is the act of getting people together in order to fulfill desired goals and objectives using available resources in an efficient and effective manner.

1.3 NATURE, SCOPE AND FUNCTIONS OF MANAGEMENT

In this section, we will discuss the nature, scope and functions of management.

1.3.1 Nature of Management

In spite of the growing importance of management as an academic discipline thereby contributing to the quality of human life, the concept is still clouded by certain misconceptions. No doubt, management as an academic body of knowledge has come a long way in the last few years. It has grown and gained acceptance all over the world. Yet, it is a paradox that the term 'management' continues to be the most misunderstood and misused. A study of the process of management reveals the following points about the nature of management.

Management is a universal process

Where there is human activity, whether individual or joint, there is management. The process of management can be noticed in all spheres of life. The basic nature of management activity remains the same in all arenas, whether the organization to be managed is a family, club, trade union, trust, municipality, business concern or the government. Slight variations in approach and style may be there from organization to organization, but the management activity is basically the same everywhere.

Management is a factor of production

Management is regarded as a factor of production. Just as land, labour and capital have to be brought together and put to effective use for the production and distribution of goods and services, similarly managerial skills have also to be acquired and effectively used for the purpose.

In the modern industrial set-up, qualified and efficient managers are essential to reap the fruits of huge investment in business where the pattern of production has become capital-intensive. In fact, in this scenario, the more important would be the role of management.

Management is goal oriented

The most important goal of all management activity is to accomplish the objectives of an enterprise. These objectives may be economic, socio-economic, social and human and thereby management at different levels seeks to achieve these in different ways. However, at all times, management has definite objectives to pursue and it employs all the resources at its command—men, money, materials, machines and methods in the pursuit of the objectives.

Management is supreme in thought and action

Determination of the objectives of an enterprise tests the collective wisdom and sense of imagination of its management. The objectives should be neither too high sounding or difficult to achieve, nor too low pitched to rob the workers of their sense of achievement. However, mere setting of objectives will be of no avail, if there is no vigorous action to achieve them.

Managers set realizable objectives and then mastermind action on all fronts to accomplish them. Managers belong to that rare breed of men who are not only aware of what is to be achieved and how, but also possess the capability and courage to accept the challenges of doing it.

Management is a group activity

An enterprise will not be able to achieve its objectives if only one or a few individuals or departments are efficient and the rest are inefficient. The calibre of each individual and department needs to be efficient in order to make a project successful. For example, even the best performance by the production department will become

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meaningless if the sales department does not make efforts to sell the products or if the finance department does not ensure adequate availability of funds.

For the success of an enterprise, it is necessary that all human and physical resources at its disposal are efficiently coordinated to attain the maximum levels of productivity. It is well-known that the combined productivity of different resources will always be much higher than the total of individual productivity of each resource. The test of managerial ability lies in coordinating the various resources and to achieve maximum combined productivity. With proper management, one plus one does not mean two but eleven. This is also called the multiplier effect of management activity.

Management is a dynamic function

Management is a dynamic function of a collective enterprise that is constantly engaged in casting and recasting the enterprise in the world of an ever-changing business environment. Not only this, it also sometimes initiates moves that reform and alter the business environment. If an enterprise is well-equipped to face the changes in business environment brought about by economic, social, political, technological or human factors, it can soon adapt itself to a changed environment or make innovation to attune itself to it. For example, if there is a fall in the demand for a particular product, the enterprise can be kept in readiness to explore new markets or switch over to production of new goods with ready demand.

Management is a social science

In other words, management means getting the tasks done by different people with different qualities. This involves dealing with individuals, each one of whom has a different level of sensitivity, understanding and dynamism. In fact, no definite principles or rules can be laid down in respect of human behaviour. These principles change from individual to individual and from situation to situation. No doubt, a manager may seek guidelines from established principles and rules but he cannot base his decisions on them.

Management is an important organ of society

Management as an activity has carved for itself an important place in society. Management shares a direct relationship with society. While the society influences the managerial actions, managerial actions influence the society. By their decisions, management of large undertakings influence the economic, socio-political, religious, moral and institutional behaviour of the members of society. This creates an impact on the social and moral obligations of business management, which cannot be easily ignored.

Management is a system of authority

It is the job of management to bring about a harmonious arrangement and pattern among the different resources employed in an undertaking. In fact, management's

role as a factor of production forces itself to be methodical in plans and procedures and on the other hand systematic and regular in their implementation. For this, it is necessary that the authority vested in the management is to be exercised properly and correctly. Therefore, this calls for well-defined lines of command, delegation of suitable authority and responsibility at all levels of decision-making. Unless there is proper balance between authority and responsibility at each level of decision-making, the organization might not succeed in the task of accomplishment of its objective.

Management is a process

Management is an activity consisting of a distinct process, which is known as the management process. This process is primarily concerned with the important task of goal achievement. No business enterprise can achieve its objectives until and unless all the members of the unit make an integrated and planned effort under the directions of central coordination agency. In management terminology, this central coordinating agency is technically known as 'management' and the methodology of getting things done is known as 'management process'. The process, in general, is defined as a series of actions or operations conducted towards an end. The logic of the management process is that particular functions are performed in a sequence within a given period of time. In other words, the functions that are performed by a manager and the sequence in which they are performed are together called the 'management process.'

The processes such as planning, organizing and actuating involved in the achievement of business goals together form the management process.

Management: a Science, an Art or a Profession

Generally, a controversy arises over the question whether management is a science or an art. It is said management is the oldest art and the youngest science. This explains the changing nature of management. However, to have an exact answer to the question, it is necessary to understand the meaning of the terms 'science' and 'art'.

Management as a science

Before trying to examine whether management is a science or not, we have to understand the nature of science. Science may be described as a systematized body of knowledge pertaining to an act of study and contains some general truths explaining past events or phenomena. It is systematized in the sense that relationships between variables and their limits have been ascertained and underlying principles have been discovered.

It may be observed that management too is a systematized body of knowledge and its principles have evolved on the basis of observation not necessarily through the use of scientific methods. However, if we consider science as a discipline in the sense of our natural science, one is able to experiment by keeping all factors and

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then varying them one at a time. In natural science, it is possible to repeat the same conditions over and over again, which enables the scientist to experiment and obtain a proof. This kind of experimentation cannot be carried out in the art of management since we are dealing with the human element. This puts a limitation on management as a science. It may be designated as an 'inexact' or 'soft science'.

Management as an art

Art comprises the 'know-how to accomplish a desired result'. The focus is on doing things in one way. As the saying goes 'practice makes a man perfect', constant practice of the theoretical concepts (knowledge base) contributes to the formation of skills. The skills can be acquired only through practice. In a way, the attributes of science and art are two sides of a coin. Medicine, engineering, accountancy and the like require skills on the part of the practitioners and can only be acquired through practice. Management is no exception. For example, a university gold medallist in surgery may not necessarily turn out to be a good surgeon; similarly a management graduate from the best of the institutes may not be very effective in practice. In both the cases, the application of knowledge acquired through formal education requires ingenuity, correct understanding of the variables in the situation, pragmatism and creativity in finding solutions to problems.

Effective practice of any art requires a thorough understanding of the science underlying it. Thus science and art are not mutually exclusive, but are complementary. Executives who attempt to manage without the conceptual understanding of the management principles and techniques have to depend on luck and intuition. With organized knowledge and the necessary skill to use such knowledge, they have a better chance to succeed. Therefore, it may be concluded that management is both a science and an art.

Management as a profession

'Profession' can be defined as a specialized kind of work practiced through specialized knowledge and is bound by a common vocabulary requiring a certain standard of practice under a code of ethics regulated by a recognized body. In order to understand the concept of management as being a profession or not, it becomes imperative to make a comparative analysis with other professions such as medicine, law, accountancy, etc. A comparison should be made with other professions on the basis of the factors like systematic knowledge, procedure of acquiring knowledge, performance-based status, code of ethics and commitment reveal that management is different from other professions.

1.3.2 Management vs Administration

The terms 'management' and 'administration' are often used synonymously. According to Dalton E. McFarland, 'In business firms, administration refers to higher, policy-determining level. One seldom regards the first-line supervisor as an administrator, instead he is a manager. In the health care fields and in many

service organization, problems (such as individual's chronic disease) are managed but programmes (such as flu vaccine distribution) are administered.'

Administration may be defined as 'the guidance, leadership and control of the efforts of a group of individuals towards some common goals'. Often the terms administration and management are used together as administrative management. Administrative management is different from 'operative management', which is concerned with the operational aspects of a business. Some experts like Oliver and Sheldon distinguished administration from management by suggesting definitions of their own.

Administration is considered as a function of an organization that is concerned with policy determination, coordination of finances, production, distribution and control of the executives that are required for establishing an organization. Contrary to this, management is the process that is concerned with the execution of the policies within certain limits set by the administration and employment of the organization for the purpose of accomplishing objectives laid down by the administration.

Essence of administration

Ordway Tead has analysed the process of administration into distinct elements that are as follows:

- Establishing the objectives
- Formulating broad policies
- Stimulating the organization
- Evaluating the performance
- Looking ahead

Thus, management actions are directed towards attaining aims and objectives that are laid down by the administration.

It is, therefore, clear that administration is more important at higher levels whereas management is more important at lower levels in the firm's organizational pyramid.

Thus, administration is a top-level function while management is a bottom-level function. The fundamental point of distinction between these two aspects is that the former is the process of formulating policies and goals of the organization while the latter directs and guides the operational or functional aspects of the organization towards achieving the objectives set by the former.

A closer look reveals that the scope of management is broader than that of administration. It is true that planning is more important and broader at higher levels of organization. Yet, it is equally valid that every level of management, irrespective of its hierarchy in the organizational setup, has to do some sort of planning and policy making along with their execution. Therefore, management includes both administrative management and operative management

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1.3.3 Scope of Management

Although it is difficult to precisely define the scope of management, the following areas are included in it:

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1. Subject matter of management: Planning, organizing, directing, coordinating and controlling are the activities included in the subject matter of management.

2. Functional areas of management: These are as follows:

- Financial management includes accounting, budgetary control, quality control, financial planning and managing the overall finances of an organization.
- Personnel management includes recruitment, training, transfer promotion, demotion, retirement, termination, labour-welfare and social security industrial relations.
- Purchasing management includes inviting tenders for raw materials, placing orders, entering into contracts and materials control.
- Production management includes production planning, production control techniques, quality control and inspection and time and motion studies.
- Maintenance management involves proper care and maintenance of the buildings, plant and machinery.
- Transport management includes packing, warehousing and transportation by rail, road and air.
- Distribution management includes marketing, market research, price-determination, taking market-risk and advertising, publicity and sales promotion.
- Office management includes activities to properly manage the layout, staffing and equipment of the office.
- Development management involves experimentation and research of production techniques, markets etc.

3. Management is an inter-disciplinary approach: For the correct implementation of management, it is important to have knowledge of commerce, economics, sociology, psychology and mathematics.

4. Universal application: The principles of management can be applied to all types of organizations irrespective of the nature of tasks that they perform.

5. Essentials of management: Three essentials of management are as follows:

- Scientific method
- Dealing with uncertainties
- Human relations
- Quantitative technique

6. Modern management is an agent of change: The management techniques can be modified by proper research and development to improve the performance of an organization.

1.3.4 Functions of Management

Functions of management can be studied through two broad functions of management: managerial functions and organizational functions.

1. Managerial Functions

In addition to the ten managerial roles as described, the job of a manager is most often described in terms of management functions. There are four basic and interrelated functions that managers perform utilizing human, financial, physical and information resources in order to achieve the organizational goals. These managerial functions are planning, organizing, directing, coordinating and controlling.

In addition to the five managerial functions of planning, organizing, directing and controlling, there are ten managerial roles coordinating as well. These roles can be defined as the organized sets of behaviours identified with the position. These roles were developed by Henry Mintzberg in the late 1960s after a careful study of executives at work. All these roles, in one form or another, deal with people and their behaviour. These ten managerial roles are divided into three categories. The first category of 'interpersonal roles' arises directly from the manager's position and the formal authority bestowed upon him. The second category of informational roles is played as a direct result of the interpersonal roles and these two categories give rise to the third category of decisional roles.

2. Organizational Structures

The organizational structure in a company defines the way in which the employee hierarchy operates and the way in which departments are categorized and how they are interlinked to result in overall effective functioning.

Organizational structure can be defined as the way in which an organization aligns or realigns itself. Every organization aligns itself in its own way and this gives rise to different organizational charts. Organizational structures depend the nature of work carried out in the organization. Some organizations, such as IT firms, hospitals and academic institutions prefer a horizontal structure, while others may prefer a more vertical structure.

Importance of organizational structure

Planning, organizing, directing, coordinating and controlling are the five major pillars of management. In order to effectively execute these tasks, a systematic organizational structure is highly essential. The organizational structure defines the range of control and line of command flow.

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Different types of organizational structures

When you talk about organizational structures you need to know the vertical span that it includes.

In this context, the structure of the organization can be viewed in two ways that determines the span of control. This, in turn, determines the effectiveness of the organizational structure. The various organizational structures are : tall, flat, line, line and staff, functional and divisional structure.

Check Your Progress

1. What is the need for management?
2. Which are the three essentials of management?
3. What is the fundamental point of distinction between administration and management?

1.4 EVOLUTION OF MANAGEMENT AND PATTERNS OF MANAGEMENT ANALYSIS

The practice of management is as old as human civilization. In fact, much of the progress of mankind over the centuries may be attributed to the effective management of resources. The examples of effective management of resources can be cited as the irrigation systems, existence of public utilities and the construction of various monuments like Taj Mahal and the Egyptian pyramids of the bygone era. These examples amply demonstrate the practice of management in the olden days.

Early contributions

The development of a systematic management thought can be attributed to the 20th century. But this should not create the impression that this was developed in this century alone. Attempts at solving management problems date back to ancient times.

There are many examples in Greek, Roman and other civilisations, which used the scientific principles of management and administration. There are quite known military leaders, who also used many such principles. The Roman Catholic Church had the most formal organization in the history of western civilization. Striking examples of these techniques are the development of the hierarchy of authority with its scalar territorial organization, specialisation of activities along the functional lines and the early and intelligent use of staff.

Classical Approach

The classical approach is also known as Functional Approach, Empirical Approach and Management Process Approach. The main features of this approach are as follows:

1. Management is viewed as a systematic network of various functions like planning, organising, directing, staffing and controlling.
2. On the basis of experiences of practising managers management principles are developed and used as guidelines for the practising managers and form the basis for management training.
3. Functions, principles and skills of management are universal. They can always be applied in any situation.
4. Formal education and training are emphasised for developing managerial skills in upcoming managers.
5. Emphasis is placed on economic efficiency and the formal organization structure.
6. People are motivated by economic gains. Therefore, the organization controls economic incentives.

This approach is based on three main pillars:

1. Bureaucracy
2. Scientific Management
3. Administrative Theory

Patterns of the Management Analysis

The various approaches to the study of management as propounded by specialists from different disciplines have come to be called the Schools of Management Thought. The major schools of management theory are:

- Management Process School or the Operational Approach
- The Empirical School or the Management by Customs School
- Illumination Studies (1924–1927)
- Bank Wiring Room Studies
- The Human Relations Approach (or) the Human Behaviour School
- The Social Systems School
- Decision Theory School

1.4.1 Management Thought in Modern Trend

The management theories or schools which have cropped up after the 1960s are generally categorized as the management thought in modern trend. There are three popular schools of management thought from this period: mathematical school, systems approach and contingency approach.

The Mathematical School

In this group, we have those theorists who see management as a system of mathematical models and processes. According to the approach of the

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Mathematical school, decision making is a logical process that can be expressed in terms of mathematical symbols and relationships. This approach forces the analyst to define a problem and allows for the insertion of symbols through logical methodology, which provides a powerful tool for solving complex phenomena.

The Systems Approach School

This school is of recent origin having developed in the later 1960s. It is an integrated approach, which considers management in its totality based on empirical data. According to this approach, attention must be paid to the overall effectiveness of a subsystem in isolation from the other subsystems. The main emphasis is on the interdependence and inter-relatedness of the various subsystems, from the point of view of the effectiveness of a large system. Its essential features are as follows:

- A system has a number of subsystems, parts and subparts.
- All the subsystems, parts and subparts are mutually related to each other. A change in one part will affect the changes in other parts.
- The systems approach emphasises on the study of the various parts in their interrelationships rather than in isolation from each other.
- The systems approach to management brings out the complexity of a real life management problem much more sharply than any of the other approaches.
- It can be utilised by any other school of management thought.

The Contingency Approach School of Management

The contingency approach to management emphasises on the fact that management is a highly practice-oriented and action-packed discipline.

Managerial decisions and actions initiatives are known to be matters of pragmatism and not of principles. The environment of organizations and managers is very complex, uncertain, ever changing and diverse. It is the basic function of managers to analyse and understand the environments in which they function before adopting their techniques, processes and practices. The choice of approaches and also their effectiveness is contingent on the behaviour and dynamics of situational variables. But, there is no one universally valid best way of doing things. Management theory and principles tend to be deterministic, while the pace, pattern and behaviour of events defy the deterministic or dogmatic approaches. What is valid and good in a particular situation need not be the same in some other situation.

1.5 MANAGEMENT AND SOCIETY

We will have a look at the relationship between management and society through two concepts: external environment and social responsibility and ethics.

1.5.1 The External Environment

The external environment can be divided into two levels, namely, the “macro-environment” and the “task environment”. The macro-environment of an organization consists of such broad dimensions and forces in the surrounding environment which provide opportunities and pose threats to the organization. These elements are general in nature and influence the organizations in an indirect way. These factors are shown as follows:

Macro-environmental Factors

1. Economic Factors.
2. Technological Factors
3. Political
4. Socio-cultural Factors
5. Natural Environment.
6. International Forces

Task Environment Factors

Task environment consists of those industry factors which are external to the firm but have a direct and specific impact upon the organization and are in turn affected by the organization’s operations. These factors are shown in the following diagram.

- 1. Competition.** Competition is the basic element of a free enterprise system. The interests of both the organization and the customers are better served when choices in the market are available. Competition encourages progress and product-developments. It forces organizations to be more innovative and productive.
- 2. Customers.** The basic reason for the very existence of any business organization is making profits and the profits are created by customers. Hence, knowledge about the customer’s needs and fulfilling these needs is an organization’s primary concern. Accordingly, an organization must continuously monitor the consumer environment in terms of any changes in customer’s needs or preferences. Managers must also recognize certain buying- preferences as passing fads and plan accordingly.
- 3. Suppliers.** Since all organizations transform inputs of materials, equipment, energy, capital and labour into outputs of products and services, an organization must interact with a network of suppliers from whom these inputs are obtained. This interaction is mutual and two-way.

Suppliers also influence a company’s strategic choices. Choosing the right supplier is an important strategic decision, whether it be colleges and universities which supply human resources or banks and federal lending agencies which provide capital or the suppliers of materials. Accordingly,

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most organizations try to develop and maintain relationships with a variety of suppliers.

- 4. Regulatory Agencies.** While political and legal issues and developments have an indirect impact on organizations and thus become an element of macro-environment, regulatory agencies are specific government agencies that have direct influence on organizational activities and operations and hence these are a part of the task environment of the organizations.

There is another type of “regulatory agency” which is known as the “interest group”.

- 5. Potential Entrants:** All organizations want to keep their number in the given industry limited. This reduces competition and increases profitability of these organizations. In some countries, the government laws and regulations are enacted to protect certain organizations from competition, domestic or foreign, either by denying new licenses or by erecting trade barriers, In India, for example, no new automobile maker could enter the market until recently. Similarly, the customs duty tax on imported items was kept so high that it protected the domestic producers of such items.

- 6. Substitutes.** Technological advances lead to the development of substitutes for existing products which offer either price or quality or convenience advantages. Laptop computers are a good substitute for desk top computers which themselves are good substitutes for mainframe computers under certain situations. Generic drugs are good substitutes for name brand drugs and cost much less. Pressure from substitute products limits an industry’s profit potential by competing and placing a ceiling on prices. Firms that ignore the potential threats from substitutes find themselves losing their market share. Accordingly, organizations must be continuously monitoring the environment for development of any substitutes that would pose a threat to their market share and must continue to improve the quality of their own products so as to be sufficiently cost effective to compete with such substitutes.

- 7. Labour.** There is a very keen competition for qualified personnel mid the organization needs the right mix of workers in. order to survive and prosper. Accordingly, an organization must create and enhance an image of its environment which is conducive to attracting skilled and ambitious workers. Furthermore, it is necessary for the organization to establish such training programs that help in developing future managers and leaders. Human resources are the most important resources for any organization because without the skilled people, the sophisticated technology, capital and materials are of little value.

- 8. Owners.** Owners or the share holders (also known as stakeholders) are becoming an element of major concern for managers in many businesses. This is specially true of those share holders who hold large blocks of stock.

1.5.2 Social Responsibility and Ethics

Even though the society's desire for corporate responsibility has been recognized since the days of industrial revolution, it has been crystallized in the more recent years. In this change, the government is passing the laws that protect the interests of the community where the labour unions and the awareness of the community of the consumer rights has played a significant role.. Whereas the past businesses were judged primarily on the achievement of their economic objectives, which centred on profitmaking, the current national attention is focussed on a new set of priorities that are expected to be achieved alongwith economic objectives. These are:

Environmental protection, Equal employment opportunity, Consumer concerns and Safety in the workplace.

The social responsibility of business has been defined in many ways and from many angles. One expert has defined corporate social responsibility as 'the notion that the corporations have an obligation to the constituent groups in society; other than stockholders and beyond that prescribed by law or union contract'. Keith Davis and Robert Blomstrom have given a more pointed definition as 'Social responsibility is the obligation of the decision makers to take actions which protect and improve the welfare of the society as a whole alongwith their own interests'. There are several key ideas in this definition. One is that the social responsibility is an obligation, for which the business should be held accountable. Another key issue is the responsibility of the business to protect the society's welfare in terms of not polluting the environment, not discriminating, not producing harmful products, not deceptively advertising etc. Lastly, it should improve the well-being of the society by generating constructive benefits in the interest of the society. These include sustaining charitable causes, art and culture, educational institutes and other community projects and programmes that would result in an overall improvement of the quality of life.

The social audit. The purpose of conducting a social audit is to get a comprehensive picture of organizational performance, to determine strengths and weaknesses of various approaches and to evaluate and appraise such performance from all aspects.

Managerial and Business Ethics

Ethics is probably the most difficult concept to define. It is as intangible to assess as the idea of morality or right and wrong. It may have some facets that are universal in nature, but much of it may be defined with reference to the values established by a particular society. For example, accepting bribes may be unethical in some societies and may be a way of life for others for getting things done. Sex before marriage in India may be immoral while it may be desirable in America. It is proper for women in some societies to be subservient to men while in others there is emphasis on equality of sexes. Artificial birth control techniques may be a taboo in

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Catholic Christian societies and may be mandatory in Russia and China. Ethical conduct is not easy to understand. The determination of ethical conduct is subjective and vague varying among different cultures and different environmental conditions.

While it is difficult to draw specific guidelines that would categorize ethical and non-ethical conduct, some general guidelines can be established that would define ethics through accepted norms of the society. As far as the business ethics are concerned, some ethical codes have been incorporated into law. These may include truth in advertising, laws against monopolizing the market, laws against adulteration of the product etc. Obviously the truth in advertising law is aimed at forbidding false claims by advertisers about their product that would be considered deceiving the consumer and hence considered unethical by the society. Similarly, monopolizing the market would mean the ability to fix prices and control the availability of the product to the consumers and this could also be branded as unethical. Adulteration of the product would mean playing with the health of the people and also cheating them out of their money's worth, which would be unethical. In addition to these areas protected by law, there are many other areas which pertain ethical issues for which even the society has not established any clear-cut mandates.

As far as business ethics are concerned, the concept of right and wrong, fair and unfair, just and unjust is reflected by either the organizational policies or by the social reactions.

Ethical Pressure Points

On-the-job research of business ethics has revealed three ethical pressure points for management. These are as follows as follows:

- 1. Pressure from above:** Most people succumb to pressure from superiors in doing things that they might find unethical otherwise. For example, when a boss tells his secretary to tell any caller that he is not in, when in fact he is in, it forces the secretary to tell a lie which otherwise she would not want to do. A research conducted among '*Harvard Business Review*' readers suggested that 'respondents frequently complained of superior's pressures to support incorrect viewpoints, sign false documents, overlook superior's wrong doings and do business with superior's friends'. Some managers are under so much pressure to achieve results, that they sometimes have to compromise their principles and integrity. Similarly the 'publish or perish' attitude of most universities about professors put so much pressure on them that some professors may do anything, including unethical activities, to publish for their very survival.
- 2. Comparative conceptual disparity:** Studies have shown that managers consider themselves more ethical than their peers. Newstrom and Ruch concluded from their research that, 'If managers believe...that they are more ethical than their peers, they may easily justify some indiscretions on the basis of 'everybody is doing it' or 'it is not as bad as what others are doing'.

Accordingly, the managers must be aware of this perceptual difference so that they can make the objective decisions when faced with an ethical question.

- 3. Ambiguous situations:** Managers are sometimes faced with situations which are ethically ambiguous without any clear-cut ethical guidelines. These ambiguities can be avoided if the organization sets up a clear code of ethics which should be formal and specific. For example, Xerox's code of ethics clearly states, 'We are honest with our customers. No deals, no bribes, no secrets, no fooling around with prices. A kickback in any form kicks anybody out. Anybody'.

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Check Your Progress

4. What are some of the other names for the classical approach of management?
5. What are the divisions of the external environment of a business?
6. State the purpose of conducting a social audit.

1.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The need for management is as follows:
 - To meet the challenges of change
 - For effective utilization of the seven Ms
 - For the development of resources
 - Management directs the organization
 - Integrate various interests
 - Management provides stability
 - Management provides innovation
 - Management provides coordination and establishes team spirit
 - To tackle business problems
 - A tool of personality development
2. The three essentials of management are as follows:
 - Scientific methods
 - Human relations
 - Quantitative technique
3. The fundamental point of distinction between administration and management is that the former is the process of formulating policies and goals of the

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organization while the latter directs and guides the operational or functional aspects of the organization towards achieving the objectives set by the former.

4. The classical approach is also known as Functional Approach, Empirical Approach and Management Process Approach.
5. The external environment can be divided into two levels, namely, the “macro-environment” and the “task environment”.
6. The purpose of conducting a social audit is to get a comprehensive picture of organizational performance, to determine strengths and weaknesses of various approaches and to evaluate and appraise such performance from all aspects.

1.7 SUMMARY

- Management is a set of principles relating to the functions of planning, organizing, directing and controlling, and the application of these principles in harnessing physical, financial, human and informational resources efficiently and effectively to achieve organizational goals.
- Management is the act and science of getting things done by proper planning, organizing, directing, coordinating and control.
- The functions of management include measuring quantity, adjusting plans and meeting targets.
- Management is regarded as a factor of production. Just as land, labour and capital have to be brought together and put to effective use for the production and distribution of goods and services, similarly managerial skills have also to be acquired and effectively used for the purpose.
- The most important goal of all management activity is to accomplish the objectives of an enterprise.
- There are four basic and interrelated functions that managers perform utilizing human, financial, physical and information resources in order to achieve the organizational goals. These managerial functions are planning, organizing, directing, coordinating and controlling.
- Organizational structure can be defined as the way in which an organization aligns or realigns itself.
- The practice of management is as old as human civilisation and much of the progress of mankind over the centuries may be attributed to the effective management of resources.
- The classical approach or the empirical approach to management is viewed as a systematic network for different functions like planning, organizing, directing, staffing and controlling.

- The major schools of management theory are: Management process schools, Empirical school, Human Behaviours or Human relations school, Social school, Decisions Theory school, Mathematical or Quantitative Management school, Systems Management school and Contingency school.
- The management theories or schools which have cropped up after the 1960s are generally categorized as the management thought in modern trend. There are three popular schools of management thought from this period: mathematical school, systems approach and contingency approach.
- The external environment can be divided into two levels, namely, the “macro-environment” and the “task environment”. The macro -environment of an organization consists of such broad dimensions and forces in the surrounding environment which provide opportunities and pose threats to the organization. These elements are general in nature and influence the organizations in an indirect way.
- Over the centuries, businessmen as well as industrialists have been looked upon as ruthless, money-hungry ambitious people whose primary purpose was to make money, expand business to make more money, irrespective of the cost to the people whom these businesses served. In this pursuit, they have been known to treat their employees as subservient workers who must be paid minimum and exploited to their maximum potential.
- The social responsibility of business has been defined in many ways and from many angles. One expert has defined corporate social responsibility as ‘the notion that the corporations have an obligation to the constituent groups in society; other than stockholders and beyond that prescribed by law or union contract’.
- Ethics is probably the most difficult concept to define. It is as intangible to assess as the idea of morality or right and wrong. It may have some facets that are universal in nature, but much of it may be defined with reference to the values established by a particular society.

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1.8 KEY WORDS

- **Management:** A problem solving process of effectively achieving organizational objectives through the efficient use of scarce resources in a changing environment.
- **Administration:** A function of an organization that is concerned with policy determination, coordination of finances, production, distribution and control of the executives that are required for establishing an organization.
- **Empirical School:** This approach to management is taken by scholars who identify management as the study of experience, followed by efforts to learn from the experience and then transfer the knowledge to practitioners and students.

- **Social responsibility:** The notion that corporations have an obligation to the constituent groups in society other than stockholders and beyond that prescribed by law or union contract.

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1.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. Management is a group activity. Explain.
2. What areas are included in the scope of management?
3. What are the various skills a manager needs to possess? Explain one of them.

Long Answer Questions

1. Explain the points revealed about the nature of management.
2. What is the 'need for management'?
3. Explain the concept of managerial responsibilities.
4. Which are those social issues where the businesses and the management are expected to get involved?

1.10 FURTHER READINGS

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UNIT 2 MANAGEMENT SCIENCE AND THEORIES

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Structure

- 2.0 Introduction
- 2.1 Objectives
- 2.2 Contributions of FW Taylor
- 2.3 Henri Fayol
- 2.4 Elton Mayo and Roethlisberger (Hawthorn Experiments)
- 2.5 H. A. Simon and P.F. Drucker
- 2.6 Universality of Management and the Relevance of Management to Different Types of Organization
 - 2.6.1 Universality of Management
 - 2.6.2 Relavance of Management in Different Organizations
- 2.7 Answers to Check Your Progress Questions
- 2.8 Summary
- 2.9 Key Words
- 2.10 Self Assessment Questions and Exercises
- 2.11 Further Readings

2.0 INTRODUCTION

Management theories are nothing but a set of general directions which can be followed by the managers in an organization to oversee the effective utilization of resources and coordination among different teams to efficiently achieve the pre-set goals and objectives of an organization. Naturally, since the world has seen so many changes in the economic sphere from the classical to the scientific to the contemporary times. The management science and theories of the management too have evolved given the multiple changes in the business environment. Management theories are categorized in many different periods broadly: pre-scientific, classical, behavioural and modern management period. We have discussed these divisions in Unit 1. In this unit, we will concentrate on the major management theories and the contributions of the likes of F.W. Taylor, Henri Fayol, Elton Mayo, Roethlisberger, H.A. Simon, and P.F. Drucker.

2.1 OBJECTIVES

After going through this unit, you will be able to:

- Analyse the role of F.W. Taylor in the development of scientific management
- Explain the contribution of Peter F. Drucker and Henry Fayol in evolution of Management
- Discuss the relevance of management in different types of organizations

2.2 CONTRIBUTIONS OF FW TAYLOR

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Frederic Winslow Taylor started his career as a machinist in 1875. He studied engineering in an evening college and rose to the position of chief engineer in his organization. He invented high-speed steel cutting tools and spent most of his life as a consulting engineer.

Taylor is called the father of scientific management. His experience from the bottom-most level in the organization gave him an opportunity to know at first the problems of the workers. Taylor's principal concern was that of increasing efficiency in production, not only to lower costs and raise profits but also to make possible increased pay for workers through their higher productivity.

Taylor saw productivity as the answer to both higher wages and higher profits. He believed that the application of the scientific method, instead of customs and rule of thumb could yield this productivity without the expenditure of more human energy or effort.

F.W. Taylor's Principles

Taylor published a book entitled, *The Principles of Scientific Management*, in 1911. But his ideas about scientific management are best expressed in his testimony that was placed before a committee of the House of Representatives in 1912. He said:

“Scientific management is not any efficiency device, not a device of any kind for securing efficiency; nor is it a bunch or group of efficiency devices. It is not a new system of figuring costs; it is not a new scheme of paying men; it is not a piece work system; it is not a bonus system; it is not a premium system; it is no scheme for paying men; it is not holding a stop watch on a man and writing things down about him; it is not time study; it is not motion study, not an analysis of the movements of men; it is not the printing and loading and unloading of a ton or two of blanks on a set of men and saying “Here's your system; go and use it”. It is not divided foremanship or functional foremanship; it is not any of the devices which the average man calls to mind when scientific management is spoken of...”

Now, in its essence, scientific management involves a complete mental revolution of the part of the working man engaged in any particular establishment or industry. This complete mental revolution focuses on the duties of the organization toward its work, toward its fellowmen and towards its employees, and it involves an equally complete mental revolution on the part of those on the management's side, which involve the foreman, superintendent, owner of the business, board of directors, and so on. The great mental revolution that takes place in the mental attitude of the two parties under scientific management is that both sides take their eyes off the division of the surplus as an important matter and together turn their attention toward increasing the size of the surplus, which becomes so large that it is unnecessary to quarrel over how it should be divided. They come to see that

when they stop pulling against one another and instead both turn and push shoulder to shoulder in the same direction, the size of the surplus created by their joint efforts is truly appreciable. When friendly co-operation and mutual helpfulness replace antagonism and strife, it becomes possible for both the parties to make the surplus so enormous that there is ample room for a large increase in wages for the workmen and an equally great increase in profits for the manufacturer.

The fundamental principles that Taylor saw underlying the scientific approach to management may be summarized as follows:

- Replacing rule of thumb with science
- Obtaining harmony in group action, rather than discord
- Achieving co-operation of human beings, rather than chaotic individualism
- Working for maximum output, rather than restricted output
- Developing all workers to the fullest extent possible for their own as well as company's highest prosperity

Taylor concentrated more on productivity and productivity based wages. He stressed on time and motion study and other techniques for measuring work. Apart from this, in Taylor's work, there also runs a strongly humanistic theme. He had an idealist's notion that the interests of workers, managers and owners should be harmonized.

2.3 HENRI FAYOL

Henry Fayol is claimed to be the real father of modern management. He was a Frenchman born in 1841 and was working as an engineer with a mining company. He improved the condition of the company from virtual bankruptcy to high success. From his practical experience, he developed some techniques. He brought out some basic principles, which he felt, could be used in all management situations, irrespective of the organizational framework.

He wrote a book entitled, *General and Industrial Management*, in French that was later on translated into English. It is now considered as one of the classics of management literature. The book mainly covers the aspects of the immutable and repetitive character of the management process and the concept that management can be taught in the classroom or the workplace. He also laid down the principles of management, which he deemed important for any organization. The principles are as follows:

- **Division of work:** This is the principle of specialisation, which is very well expressed by economists as being a necessary factor for efficiency in the utilisation of labour.
- **Authority and responsibility:** In this principle, Fayol conceives authority as a combination of official authority deriving from a manager's official

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position and personal authority, which is compounded of intelligence, experience, moral worth, past services etc.

- **Discipline:** Holding the notion that discipline is “respect for agreements which are directed as achieving obedience, application, energy and the outward marks of respect”, Fayol declares that discipline requires good superiors at all levels, clear and fair agreements and judicious application of penalties.
- **Unit of command:** This is the principle, which states that an employee should receive orders from one superior only.
- **Unity of direction:** According to Fayol, the unity of direction principle implies that each group of activities having the same objectives must have one head and one plan. As distinguished from the principle of unity of command, Fayol perceives unity of direction as related to the functioning of personnel.
- **Subordination of individual interest to general interest:** In any group, the interest of the group should supersede that of the individual. When the interests differ, it is the function of the management to reconcile them.
- **Remuneration of personnel:** Fayol perceives that remuneration and methods of payment should be fair and also should be able to afford the maximum satisfaction to employee and employer.
- **Centralization:** Although Fayol does not use the term, Centralization of Authority, his principle definitely refers to the extent to which authority is concentrated or dispersed in an enterprise. Individual circumstances determine the degree of centralization that gives the best over all yields.
- **Scalar Chain:** Fayol thinks of the scalar chain as a line of authority, a chain of superiors from the highest to the lowest ranks. And, because it is an error of a subordinate to depart needlessly from the lines of authority, the chain should be short-circuited.
- **Order:** Breaking this principle into material order and social order, Fayol thinks of it as a simple edge for everything. This organization is the principle, which refers to arrangement of things and persons in an organization.
- **Equity:** Fayol perceives this principle as one of eliciting loyalty and devotion from personnel with a combination of kindness and justice in managers while dealing with subordinates.
- **Stability of tenure of personnel:** Finding that instability is both the cause and effect of bad management, Fayol points out the dangers and costs of unnecessary turnover.
- **Initiative:** Initiative is conceived as the process of thinking out and executing a plan. Since it is one of the keenest satisfactions for an intelligent man to

experience, Fayol exhorts managers to sacrifice personal vanity in order to permit subordinates to exercise it.

- **Esprit de corps:** This principle implies that union is strength and an extension of the principle of unity of command. Fayol here emphasises on the need for teamwork and the importance of communication in obtaining it.

Henry L. Gantt (1861-1919)

Henry Gantt worked with Taylor and was responsible for introducing “Task and Bonus Plan” and the Gantt chart. The “Task and Bonus Plan” was aimed at providing extra wages for extra work in addition to a guaranteed minimum wage. Bonuses were also awarded to supervisors who were successful in getting their workers to meet the output goal. The Gantt chart, which was a forerunner of today’s PERT (Program Evaluation and Review Technique) was a chart on which the process of work could be recorded.

Managerial operations were Fayol’s primary concern and he defined these operations in terms of 5 functions. These function are:

- (a) Planning
- (b) Organizing
- (c) Command
- (d) Coordination
- (e) Control

Bureaucratic Organization

Weber looked for rules to eliminate managerial inconsistencies that contribute to effectiveness. He further believed that every deviation from the formal structure interferes with efficient management. He believed in strict adherence to rules which would make bureaucracy a very efficient form of organization founded on principles of logic, order and legitimate authority. Weber described it as follows:

“The purely bureaucratic type of administrative organization ... is, from a purely technical point of view, capable of attaining the highest degree of efficiency ... It is superior to any other form in precision, in stability, in the stringency of its discipline, and in its reliability. It thus makes possible a particularly high degree of calculability of results for the heads of the organization and for those acting in relation to it. It is finally superior both in intensive efficiency and in the scope of its operations and is formally capable of application to all kinds of administrative tasks.”

Check Your Progress

1. What was the answer to both higher wages and higher profits as per Taylor?
2. List the functions which define managerial operations as per Fayol.

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2.4 ELTON MAYO AND ROETHILISBERGER (HAWTHORN EXPERIMENTS)

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The behavioural approach or the human relations approach is based upon the premise of increase in production and managerial efficiency through an understanding of the people. The growth and popularity of this approach is attributable to Elton Mayo (1880-1949) and his Hawthorne experiments. Hawthorne studies (1924-1932) were conducted to determine the effect of better physical facilities on workers' output. These studies showed that better physical environment or increased economic benefits in itself were not sufficient motivators in increasing productivity. In effect the emphasis shifted to psychological and social forces, in addition to economic forces. Mayo discovered that when workers are given special attention by management, the productivity is likely to increase irrespective of actual changes in the working conditions.

Even though Mayo's conclusions are not necessarily accepted today, the Hawthorne studies were primarily responsible for consideration of non-financial incentives in improving productivity.

Central to this approach was an increased understanding of the individual worker with emphasis on motivation, needs, interpersonal relationships and group dynamics. These experiments suggested that an office or a factory is not only a workplace but also a social environment in which the employees interact with each other. This gave rise to the concept of the "social man" whose interaction with others would determine the quality and quantity of the work produced. It must be understood, however, that in spite of the fact that this social environment is an important factor in improving the quality and output, it does not replace economic benefits for low level salaries and it may increase turnover of employees, even if the working conditions are satisfactory.

In support of Mayo's contention and findings, Abraham Maslow presented a theory of individual needs. The basic aim of this approach is to increase the organizational effectiveness of its human resources, which could be achieved by properly taking care of human needs. The human needs could be physiological or psychological.

According to Maslow, these needs fall into a hierarchy. At the bottom of the hierarchy are the lower level needs such as Physiological and safety needs. At the top are higher level needs such as need for respect and self-fulfilment. In general, the lower level needs must be satisfied before the higher level needs arise. Being aware of these needs enables a manager to use different methods to motivate workers. This is important and significant because of the complexity of man's nature. Different people will react differently to the same situation. Or, their reaction may be similar to different situation. Hence, the management must be aware of these differences and react accordingly.

The behavioural approach had a major impact on management thinkers right through the 1970s and indeed changed the structure of the organization from bureaucratic to participative in which the workers have more freedom to participate in the affairs of the organization. However, lately, some serious questions have been asked, whether man is entirely a “social man” and not an “economic man”. Not all employees seek self-actualization as their ultimate goal. Some professionals may be motivated by recognition and a feeling of self-fulfilment, it may not be generally true for blue collar workers for whom the increased economic benefits are the only motivators and who may not seek additional challenges or higher responsibility. Additionally, the research results generally do not support the contention of behavioural scientists that an increase in job satisfaction alone leads to higher productivity.

Since the human behaviour is highly complex, a number of factors may affect the workers productivity and indeed the feeling of belonging, recognition and participation is an important one.

Elton Mayo (1880-1949). Elton Mayo, along with F.J. Roethlisberger (1896-1974), conducted the famous Hawthorne experiments (1924-1932) at the Hawthorne plant of Western Electric Company. These experiments proved to be a milestone in the development of the Behavioural School of Management. These studies were primarily conducted to determine the effect of better physical facilities and material incentives on worker output. These studies showed that better physical environment or increased economic benefits alone were not sufficient motivators in increasing productivity. In effect, the emphasis shifted to psychological and social forces, in addition to economic forces. Mayo discovered that when workers are given special attention by management, the productivity is likely to increase irrespective of actual changes in the working conditions:

The Hawthorne experiments suggested that an office or a factory is not only a work place but also a social environment in which the employees interact with each other. This gave rise to the concept of the “social man, whose interactions with others would determine the quality and quantity of the work produced. As one writer has pointed out, “No other theory or set of experiments has stimulated more research and controversy nor contributed more to a change in management thinking than the Hawthorne studies and the human relations movement they spawned.”

Even though Hawthorne studies have been criticized because of some major flaws in conducting the study (such as changing several factors at the same time) and some important factors, such as the impact of financial incentives were sometimes ignored in drawing conclusions, they were primarily responsible for consideration of non-financial incentives in improving productivity. Accordingly, it must be understood that in spite of the fact that the social environment is an important factor in improving the quality and the output, it does not replace economic benefits, specially for low level salaried workers.

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2.5 H. A. SIMON AND P.F. DRUCKER

Let us now discuss the theories of Simon and Drucker.

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Herbert Simon

Herbert Simon pronounced, in his book *Administrative Behavior: A Study of Decision-Making Processes in Administration Organization* published in 1947, the death knell of classical management theory. He is critical of the principles of administration like duty of command and span of control. Simon found classical administration to be vague and contradictory. Simon received the Nobel Prize for his greatest contribution to the field of management, the decision-making theory of management. According to him, decision making is mostly satisfying rather than optimum and that decision-makers function in a realm of bounded rationality. Since the manager has limited resources while considering alternatives in the decision-making process. Throughout his academic career, he explored various facets in decision-making in human lives and contributed significantly to management economics, literature, economy, psychology and artificial intelligence.

He maintained that human rationality is limited as information is incomplete, misleading or imperfect; the information processing methods are limited; time spent on decision making is limited; often decision-makers have conflicting preferences for certain organizational goals. Organizations also have boundaries that hinder people's decision-making abilities. In any organization, information is of two kinds—values that are embedded in the mindset of the members and facts that can be verified. According to him, people decide rationally in only a few instances in life. His principle of bounded rationality promoted people who are part of organizations as behavioural thinkers. Centralized bureaucracies proved successful in efficiently training and equipping large numbers of soldiers during the war effort. Bounded rationality emphasized generating reasonable alternatives through a fast and creative process rather than selecting one best alternative. Decision-makers almost always have opposing views while taking decisions in an organizational setup. The process becomes further ambiguous if these decision-makers do not see eye to eye and accept each other as capable enough to handle the management aspects of the organization. More information provided in an ambiguous process may lead to additional points of disagreements to creep in. Thus, he refuted the claims of universality of management principles in some situations as decision-makers almost always reach different conclusions with access to the same information. They almost always choose the first satisfying solution rather than the best solution.

Peter F. Drucker

Drucker is a highly-respected management thinker. He was a prolific writer and has published several books and articles on management practices. He was so versatile that there is hardly any area in management, which is not touched by him. He had drawn heavily from his consultancy experience spread over the last four to

five decades. Drucker perhaps is the only Western management thinker who is admired by even the socialist block countries. His views on management may be summarised as follows:

Management as a Practice

According to Drucker, management has two important functions, innovation and marketing. He has treated management as a discipline as well as a profession. For him, management is more of a practice and is always goal oriented. His study on the purpose of business as the creation of the customer, if understood in the right manner, helps any organization to achieve success.

Drucker's view on innovation is equally important in order to pay emphasis during the development of a new product. He argues that new products should drive out the existing products, rather than the other way round. As such, he is against bureaucratic management, as he thinks that it stifles the innovative spirit and the initiative among the people in the organization. He considers that modern organizations are knowledge-based organizations and describes the modern workers as knowledge workers considering their skills and innovative abilities.

Functions of Management

Drucker points out three basic functions of management. The actions of management should contribute to:

1. The achievement of purpose and mission of the institution.
2. Make the work productive and the worker achieving.
3. Effective management of social responsibilities.

Objective Setting

Drucker has attached great importance to objective setting. He has specified that objectives should be set for all the key result areas of business. To make the objectives and their achievements more meaningful, he has given a new tool, is popularly known as Management by Objectives (MBO). MBO is regarded as one of his most important contributions to the discipline of management. He has discussed the concept in great detail in his book, *The Practice of Management* (1954). MBO is a process where superiors and subordinates jointly identify the common objective, set the results that should be achieved by subordinates, and assess the contribution of each individual. It is viewed more as a philosophy than as a tool or technique to achieve the objectives.

Orientation towards Justice

Drucker is a great visionary and futurologist. He was ahead of others in visualising the future trends that affect society. He visualised the concept of modern organization and its impact on society several years ago. His views on the many facets of modern corporations have come into practical use now. To put it in his own words, he describes the present age as the age of discontinuity.

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Federalism

Drucker advocated the concept of federalism. Federalism according to him involves centralised control in a decentralized structure. Federalism has certain positive values over other methods of organising. These are as follows:

1. It sets the top management free to devote itself to major policy formulation and strategy development.
2. It defines the functions and responsibilities of the employees.
3. It creates yardsticks to measure twin success and effectiveness in operating jobs.
4. It helps resolve the problem of continuity through giving education to the managers of various units while in an operating position.

Drucker's realistic way of looking at the organizations and society has earned him the status of a management guru. His contributions have made tremendous impact on the management practices all over the world. He is one of the few contemporary management thinkers who are highly admired in Japan. Similarly, the contributions of Peters and Waterman who extensively studied a few American companies and are known for their excellence in modern management practices. McKinsey consultancy firm's contribution of the "7S" model for the management and Edward Deming's preaching on quality control have created tremendous impact on modern management all over the world in the recent past. Michael Porter's work on competitive strategy turned a new leaf in the strategic management area. His book on competitive strategy suggests the ways and means that help organizations and nations to gain a competitive edge.

2.6 UNIVERSALITY OF MANAGEMENT AND THE RELEVANCE OF MANAGEMENT TO DIFFERENT TYPES OF ORGANIZATION

In this section, we will discuss the concept of universality of management and the relevance of management to different types of organization.

2.6.1 Universality of Management

The theory of universality of management as the name suggests basically argues that management and its activities are similar across a wide variety of organizations including not only the likes of businesses, government organizations, hospitals and also not-for-profit organizations. Universality as a concept means that the basic concepts are transferrable to identifiably different organizations. The idea suggests that the basic principles of management do not alter across different institutions. Infact the managerial skills, responsibilities and duties remain almost same.

The organizational goals of different enterprises include similar activities like setting objectives, allocating resources, coordinating with different departments, controlling and evaluating activities.

Universality of management then as a concept implies that managerial skills can be transferred from one person to another, from one organization to another, and from one country to another.

There were many thinkers of management like Fayol, Koontz and Urwick who were proponents of universality of management. They believed that the following principles proved the universality of management:

- Unity of command
- Departmentation
- Division of labour and,
- Span of control

The reasons for supporting the idea of universality of management lay on the emphasis that management fundamentals unlike management techniques and practices were not affected by the environment of business and would be applicable everywhere. The evidence for this was the transfer of managers as seen in varied organizations, which does not hamper any process rather shows how basic principles remain the same in different organizations. Additionally, there idea that basic management processes like planning, organizing, staffing, directing and controlling are needed at every organization proves that management principles remain the same across organizations.

However, not all the thinkers support the idea of universality of management and prominent amongst them are Peter Drucker, R.W. Gonzalez, Simon, etc. The arguments against universality of management are: organizations differ on the basis of their objectives, organizations have different underlying philosophies which guide their actions, universality is a very general concept which might fail in specific specialized organizations and that universality might only be functional at the upper rungs and not lower ladder of the organization which engage in very different functions.

2.6.2 Relavance of Management in Different Organizations

Organizations can be of various types: formal or informal. There are also classifications of organizations based on its structure. But whatever be the type of organization and its objectives, management becomes the common link of administration. The following points reveal how no matter what the type of organization, management is relevant as it helps in:

- 1. Problem-solving process:** One of the most important functions of a manager is to make decisions and solve problems. Some of the major problems that management must continually face include unpredictable

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economic trends, changing governmental regulations, resource shortages and a severe competition for these resources, employee demands, technical problems, technological developments and so on. There are other problems that are comparatively routine in nature and can be solved by some tried and tested mechanisms. For example, a change in production quality can be easily looked into and the process corrected or modified or changed if necessary. On the other hand, an increase in employee grievances or employee absenteeism or turnover may require carefully studied unique solutions.

- 2. Achieving organizational objectives:** All organizations have a mission that is the very basic reason for their existence and certain goals and objectives. While the goals are long range and more general in nature, objectives are more specific, tangible and most often quantifiable. For example, the mission of a college may be high-quality education, its goal may be to primarily serve the educational needs of the surrounding community and its objective may be to increase the number of new students entering the college by 10 per cent in 2 years. The primary objective of most organizations is to provide a service for the public. Of course, such service has to be profitable for the organization in monetary terms, for that is the essence of a capitalist economy. Accordingly, management must plan its activities along these lines. Additionally, it is also the management's responsibility to integrate the personal objectives of the employees into organizational objectives. The personal objectives of employees may include higher remuneration, more challenging tasks and responsibilities and participation in the decision-making process.
- 3. Efficient use of resources:** Efficiency, along with effectiveness, is the most common way of measuring organizational performance. Efficiency is the ability to 'get things done correctly.' An efficient manager achieves a higher output with given resources of time, talents and capital such that these resources are fully utilized without waste. Similarly, effectiveness means 'doing the right things in the right way at the right time.' Accordingly, successful managers would not only be effective in terms of selecting the right things to do and the right methods for getting them done, but they would also be efficient in fully utilizing resources.
- 4. Scarce resources:** The resources of people, time, capital and raw materials are all finite and limited. They are all scarce in nature and are not expandable. Additionally, there is a fierce competition for acquiring these resources. Management, basically, is a 'trusteeship' of these resources and hence must make conscious efforts to make the most of these resources.
- 5. Changing environment:** The dynamics of the environment is evidenced by the changes that have taken place in all areas in the last few years. The

advent of computers and telecommunications technology has changed the ways in which the assessment of the environment is carried out for decision-making purposes. Accordingly, management must be prepared to predict accurately these changes and formulate ways to meet these new challenges more effectively.

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Check Your Progress

3. State the purpose of Hawthorn experiments.
4. Why did Herbert Simon receive a Nobel Prize?
5. List the three basic functions of management.
6. Name some of the thinkers who were proponents of universality of management.

2.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Taylor saw productivity as the answer to both higher wages and higher profits.
2. Managerial operations were Fayol's primary concern and he defined these operations in terms of 5 functions. These function are:
 - (a) Planning
 - (b) Organizing
 - (c) Command
 - (d) Coordination
 - (e) Control
3. Hawthorne studies (1924-1932) were conducted to determine the effect of better physical facilities on workers' output.
4. Simon received the Nobel Prize for his greatest contribution to the field of management, the decision-making theory of management.
5. Drucker points out three basic functions of management. The actions of management should contribute to:
 - The achievement of purpose and mission of the institution.
 - Make the work productive and the worker achieving.
 - Effective management of social responsibilities.
6. There were many thinkers of management like Fayol, Koontz and Urwick who were proponents of universality of management.

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2.8 SUMMARY

- Management theories are nothing but a set of general directions which can be followed by the managers in an organization to oversee the effective utilization of resources and coordination among different teams to efficiently achieve the pre-set goals and objectives of an organization.
- Frederic Winslow Taylor started his career as a machinist in 1875. He studied engineering in an evening college and rose to the position of chief engineer in his organization. He invented high-speed steel cutting tools and spent most of his life as a consulting engineer.
- Taylor concentrated more on productivity and productivity based wages. He stressed on time and motion study and other techniques for measuring work. Apart from this, in Taylor's work, there also runs a strongly humanistic theme. He had an idealist's notion that the interests of workers, managers and owners should be harmonized.
- Henry Fayol is claimed to be the real father of modern management. He was a Frenchman born in 1841 and was working as an engineer with a mining company. He improved the condition of the company from virtual bankruptcy to high success. From his practical experience, he developed some techniques. He brought out some basic principles, which he felt, could be used in all management situations, irrespective of the organizational framework.
- Henry Gantt worked with Taylor and was responsible for introducing "Task and Bonus Plan" and the Gantt chart. The "Task and Bonus Plan" was aimed at providing extra wages for extra work in addition to a guaranteed minimum wage. Bonuses were also awarded to supervisors who were successful in getting their workers to meet the output goal. The Gantt chart, which was a forerunner of today's PERT (Program Evaluation and Review Technique) was a chart on which the process of work could be recorded.
- The behavioural approach or the human relations approach is based upon the premise of increase in production and managerial efficiency through an understanding of the people. The growth and popularity of this approach is attributable to Elton Mayo (1880-1949) and his Hawthorne experiments. Hawthorne studies (1924-1932) were conducted to determine the effect of better physical facilities on workers' output. These studies showed that better physical environment or increased economic benefits in itself were not sufficient motivators in increasing productivity.
- Herbert Simon pronounced, in his book *Administrative Behavior: A Study of Decision-Making Processes in Administration Organization* published in 1947, the death knell of classical management theory. He is critical of the principles of administration like duty of command and span of control. Simon

found classical administration to be vague and contradictory. Simon received the Nobel Prize for his greatest contribution to the field of management, the decision-making theory of management.

- Drucker points out three basic functions of management. The actions of management should contribute to:
 - a) The achievement of purpose and mission of the institution.
 - b) Make the work productive and the worker achieving.
 - c) Effective management of social responsibilities.
- There were many thinkers of management like Fayol, Koontz and Urwick who were proponents of universality of management. They believed that the following principles proved the universality of management:
 - a) Unity of command
 - b) Departmentation
 - c) Division of labour and,
 - d) Span of control
- Not all the thinkers support the idea of universality of management and prominent amongst them are Peter Drucker, R. W. Gonzalez, Simon, etc. The arguments against universality of management are: organizations differ on the basis of their objectives, organizations have different underlying philosophies which guide their actions, universality is a very general concept which might fail in specific specialized organizations and that universality might only be functional at the upper rungs and not lower ladder of the organization which engage in very different functions.

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2.9 KEY WORDS

- **Scientific management:** It is a theory of management which involves a complete mental revolution focusing on the duties of the organization toward its work, toward its fellowmen and towards its employees, and it involves an equally complete mental revolution on the part of those on the management's side, which involve the foreman, superintendent, owner of the business, board of directors, and so on.
- **The behavioural approach or the human relations approach:** It is a management approach based upon the premise of increase in production and managerial efficiency through an understanding of the people.
- **Hawthorne studies:** It refers to the studies conducted by Elton Mayo along with F.J. Roethlisberger between (1924-1932) to determine the effect of better physical facilities on workers' output.

2.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short Answer Questions

1. Analyse the contribution of F.W. Taylor.
2. Write a short note on the universality of management.
3. Explain the Hawthorn experiments and its relevance.
4. List the needs for management.
5. Discuss the relevance of management to different types of organizations.

Long Answer Questions

1. Discuss how F.W. Taylor and Henry Fayol differ in their approach to management thought.
2. Describe the principles given by Henry Fayol to the Modern Management Thought.
3. Examine Drucker's theory of management.

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UNIT 3 PLANNING

Structure

- 3.0 Introduction
- 3.1 Objectives
- 3.2 Planning: Nature, Purpose, Principles and Planning Premises
- 3.3 Components of Planning (Vision, Mission, Objectives)
- 3.4 Managing by Objective (MBO)
- 3.5 Types of Planning: Strategies, Types And Policies
- 3.6 Planning and Decision Making: Planning Process
- 3.7 Answers to Check Your Progress Questions
- 3.8 Summary
- 3.9 Key Words
- 3.10 Self Assessment Questions and Exercises
- 3.11 Further Readings

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3.0 INTRODUCTION

This unit introduces you to planning. Planning is the first of the four primary management functions and sets the direction for an organization. It is undertaken after the mission of the organization is defined and its goals and objectives established. It involves a set of decisions that are required to initiate a set of activities embarked upon to achieve the goals and objectives of the organization, consistent with its mission. The successful implementation of policies, procedures and rules, as prescribed during the planning process, ensures the success of the organization. Planning is required at all levels of management relative to what managers at these levels do. Strategic planning undertaken by the top management focuses on where the organization will be in the future; tactical planning emphasizes on how it will be done. Operational plans are short-range plans and specify the operational aspects of the activities. Of course, all such plans should have contingency plans to modify the existing plans and change them, if necessary. In this unit, we will learn all about the concept of planning in management.

3.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the concept and nature of planning
- Learn the importance of planning
- Understand the benefits of formal planning
- Describe the principles of effective planning
- Understand planning at the various levels of management

3.2 PLANNING: NATURE, PURPOSE, PRINCIPLES AND PLANNING PREMISES

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A number of management thinkers have given their own definition of planning, with the central core being that of making decisions now that will affect the future of the company. As such the planning process has three characteristics. These are:

1. *Planning is anticipatory in nature.* A decision must be made now as to what to do and how, before it is actually done.
2. *Planning is a system of decisions.* It involves a process of making decisions which will define what is to be achieved in the future and the formulation of action plans for achievement of goals.
3. *It is focussed on desired future results.* Planning is a means of ensuring that the important organizational objectives are accomplished as and when desired.

Purpose of Planning

1. **Planning is essential in modern business.** The growing complexity of the modern business with rapid technological changes, rapid changes in consumer tastes and growing tough competition necessitates orderly operations not only in the current environment but also in the future environment. Since planning takes a future outlook, it takes into account the possible future developments.
2. **Planning is related to performance.** It can be expected and there is evidence to support the hypothesis that companies that engaged in formal planning consistently performed better than those with no formal planning, and improved their own performance over a period of time. The performance was measured by such factors as return on investment, sales volume, growth in earnings per share, etc.
3. **Planning puts a focus on objectives.** The effectiveness of formal planning is primarily based upon clarity and specificity of objectives. Objectives provide a direction and all planning decisions are directed towards achievement of these objectives. This ensures maximum utility of managerial time and efforts.
4. **Planning anticipates problems and helps in the smooth flow of operations.** Since planning is involved in forecasting the future, it minimizes the chances of haphazard and hurried decisions. Since the needs of the organization are anticipated in advance, the proper acquisition and allocation of resources can be planned thus minimizing wastage ensuring optimal utility of these resources.
5. **Planning is necessary to facilitate control.** Since plans are made to achieve objectives, periodic reviews of operations can determine whether

the plans are being implemented correctly. Well developed plans can aid the process of control in the following ways:

- (a) Establish advanced warning of possible deviations from the expected performance. The deviations in production, sales, profits, etc. may come to light during periodic investigations and remedial “action can be taken.
 - (b) Provide quantitative data. There may be provision in plans to compare the actual performance, in quantitative terms, concerning production of sales, with industry statistics or market forecasts.
6. **Planning helps in the process of decision-making.** Since planning specifies the actions and steps to be taken in order to accomplish organizational objectives, it serves as a basis for decision-making about future activities. It also helps managers to make routine decisions about current activities since the objectives, plans, policies, schedules, etc. are clearly laid down.

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Nature of Planning

A good plan can be identified by certain characteristics. Some of these characteristics are given below:

1. A good plan is based upon clear, well-defined and easily understood objectives. General objectives like improving morale or increasing profits are ambiguous in nature and do not lend to specific steps and plans. If possible, objectives must be quantified for sake of simplicity.
2. A good plan must be simple and comprehensive. It should be simple so that all employees can grasp its significance and it can be easily put into operation. It should be detailed enough so that it covers all aspects of the operations that are necessary to achieve objectives.
3. It should be well-balanced, but flexible. A good plan should be well-balanced so that the existing resources are properly utilized for all functions and that short-term gains are not at the cost of long-term gains and vice-versa. Similarly, it should be flexible enough to incorporate any changes in these resources, if necessary. Additionally, it should be responsive to changed conditions so that if future events do not follow the anticipation, the same plan can be modified and adopted to the altered situation.
4. Every plan should be time-bound. Even though planning is an attempt to anticipate the future, the time period allowed for achieving goals should be reasonable. Long-range planning has more uncertainties built into it due to difficulty in correctly anticipating events for a longer period of time. Hence the time period covered should be reasonable and reasonably stable.
5. The plans should involve participation by subordinates. Planning should not be an exclusive responsibility, of top management. Subordinates will not be responsible if a plan is imposed upon, them. Also; subordinate participation

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generally ensures the sincere and serious effort on their part to make the plan successful.

6. Characteristic of unity, planning is initiated by different managers of different divisions at different times. It is necessary that a good plan should incorporate all these departments, maintaining consistency, and unity of purpose at all times and focussing on the overall objective.

A good plan strives for optimal utility of physical as well as human resources in unison and harmony. According to David W.Ewing, "Planning is a two-sided affair. Planners may think only of the formal, economic, physical, and technical resources side when they develop a program. But if the human side is not attended to properly, then chances are that the planning will not be successful."

Principles of Planning

These principles are primarily based upon Gary Dressler. They are as follows:

1. Keep aims crystallized
2. Develop accurate forecasts
3. Involve subordinates in the planning process
4. The plan must be a sound one
5. Assign planning responsibility to the right people
6. Don't be over-optimistic
7. Decide in advance the criteria for abandoning a project
8. Keep your plan flexible
9. Review long-range plans on a short-range
10. Fit the plan to the environment.

Planning Premises

As we have seen before, planning premises refers to the forecasts or predictions about the environment in which the plans are going to operate. They are basically assumptions or anticipated environmental conditions. Premises can be of varied types:

- Internal (philosophy, worker's skills, company policies) and external premises (cultural, technological, political environment, etc.)
- Tangible (hours of work, units of production and sale) and intangible (employee's attitude, morale, goodwill) premises
- Controllable (money, machine, material), Semi-controllable (advertising strategy) and non-Controllable (natural calamities, government's policies, consumer behaviour) premises
- Constant (machine, money, men) and variable (union-management relationships) premises

3.3 COMPONENTS OF PLANNING (VISION, MISSION, OBJECTIVES)

The components of planning can be best understood through the process of planning. Planning process for all organizations is built on the framework of the statement of formal mission, specific objectives that are established on the basis of the mission statement and the plans that can be developed to achieve these objectives, as shown below:

The Mission and Vision

The mission of an organization is the very reason for its existence. It sets out why the organization exists and what it should be doing. For example, the mission of a national airline might be defined as “satisfying the needs of individual and business travellers for high-speed transportation at a reasonable price to all the major domestic population centres.

The purpose of the mission statement is to guide managers, work units and individual employees throughout the organization. A clear mission statement is concise, focused, worthy imaginative and realistic.

In addition to the mission statement, managers today are increasingly recognizing the need to have “vision” of what the organization is to become. Most leaders are expected to be “visionary”, who can “see” beyond the obvious. Vision is general directional and motivational guidance for the entire organization. It should have an emotional element in it. For example, Steven Job’s vision for Apple Computer was “to make a contribution to the world by making tools for the mind that advance mankind.” This was a compelling statement of direction which was emotionally charged. The mission of the organization adds specificity to vision.

Goals and Objectives

The goals of an organization are refinements of its mission. They are open-ended statements of purpose which help describe an organization’s philosophy. Goals are more specific than mission but address, in general, such key issues as market share, productivity, profitability, efficiency, growth, physical and financial resources and so on. Objectives are specific statements about anticipated end-results of any activity. They further define the organizational goals. For example, the goal of a college may be to increase the number of students. The objective would be to increase the number of incoming students by 5 per cent per year. Similarly, if the goal is to increase sales, then the specific objective might be to increase sales by 10 per cent in the first year.

Characteristics of Sound Objectives

Sound objectives should have five basic characteristics. They should be:

1. In writing
2. Time bound

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3. Measurable
4. Attainable
5. Mutually supportive

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Check Your Progress

1. What ensures maximum utility of managerial time and efforts?
2. What are the different types of premises?
3. State the characteristics of a clear mission statement.

3.4 MANAGING BY OBJECTIVE (MBO)

Management by objectives was first described and advocated by Peter Drucker in 1954 in “The Practice of Management”. He stressed that “business performance requires that each job be directed towards the objectives of the whole business”. MBO is the philosophy of management that emphasizes that managers and subordinates work together in identifying and setting up objectives and make plans together in order to achieve these objectives. These objectives should be consistent with the organization mission and goals.

MBO, also referred to as “Management by Results” or “Goal Management” is based on the assumption that involvement leads to commitment and if an employee participates in setting goals and objectives as well as setting standards for measurement of performance, then such employee will be motivated to perform better and in a manner that directly contributes to the achievement of organizational objectives.

MBO is both an aid to planning as well as a motivating factor for employees. By its proper use, some of the planning errors can be eliminated or minimized. It is a comprehensive system based upon set objectives in which all members participate. These objectives are common objectives for all participants and the extent of rewards for each member would be determined by the degree of achievement. This leads to a fair appraisal system. Additionally, a good MBO plan involves regular face-to-face superior-subordinate communication and hence it improves the communication network.

MBO Process

An effective MBO programme requires top management participation and support. It relies on the participative approach to management so that managers at all levels are actively involved. MBO programme cannot succeed if top management is unwilling to accept the philosophy behind it where subordinates take equal part. MBO can only succeed if it has the complete and enthusiastic support of top management.

- **Establish Long-Range Objectives and Plans:** As noted earlier, an organization's mission is defined in terms of goals and objectives. In consistency with the mission and the philosophy of the organization, long range objectives and plans are established by the top management after thoughtful matching of the goals and resources.
- **Establish Specific Short-term Organizational Objectives:** Short-term organizational objectives are usually more specific and quantifiable targets, covering such areas as marketing, productivity, profitability and so on. These short-term objectives must be supportive of the long range objectives and plans and must be consistent with the overall purpose of the organization.
- **Establish Action Plans:** These plans involve establishment of individual performance objectives and standards. While the entire process is that of participative nature, it is at this level that the managers and subordinates work closely in setting their individual goals. They jointly establish objectives with their superiors and subordinates are given sufficient latitude to devise and implement strategies to achieve these objectives. These objectives are usually short-range and specific and primarily indicate as to what the subordinate's unit is capable of achieving in a specified period of time. The subordinates must set objectives in consultation with the individuals who comprise his unit. In this way, everyone gets involved in goal setting.
- **Appraise Results:** The next step is to measure and evaluate performance periodically, in order to determine the degree of progress towards achievement of objectives. The performance appraisal methodology should also be jointly agreed upon. These periodic reviews can reveal if any unanticipated problems have developed. Furthermore, these reviews will assist the manager and the subordinates to modify either the objectives or the methods, if necessary.
- **Take Corrective Actions:** The periodic evaluations would indicate if there are any deviations from the performance standards expected and planned. It is left to the managers and subordinates to take whatever action is necessary. These actions may include changes in personnel, retraining of personnel, changes in methodologies or even changes in objectives.

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3.5 TYPES OF PLANNING: STRATEGIES, TYPES AND POLICIES

Organization plans are usually divided into four types, namely *sign-post plans*, *synergic plans*, *standing plans* and *single-use plans*. Standing plans are those that remain roughly the same for long periods of time and are used in organizational situations that occur repeatedly. The most common kinds of standing plans are policies, procedures and rules. Single-use plans focus on relatively unique situations

within the organization and may be required to be used only once. These plans can be subdivided into programmes and budgets.

Strategic Planning

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Strategic planning can be defined as the organization's effort to define a strategy and make decisions regarding the allocation of resources to pursue the strategy. This included people and finance. In order for a organization to know where it is going, it needs to know where stands and then proceed their planning. This process is known as strategic planning. Although, an organization can plot its long-term direction by strategic planning, it cannot use strategic planning to forecast the market conditions and its effects on their organization.

Vision statements, mission statements and value:

- **Vision:** It is a long-term view. Vision can be defined the way an organization will look in future.
- **Mission:** It defines the fundamental purpose of the organization with information regarding why it exists and what it needs to achieve according to its vision.
- **Values:** Values are the beliefs shared by the organization's managers, stakeholders. Value defines the organizations culture and priorities providing a framework for decision-making.
- **Objectives:** They are the key elements which clearly define the state of the business in terms of the needs/wants it needs to achieve in future. Besides indicating the need to achieve regular profits, objectives are required to understand and relate to the expectations of all major stakeholders, including the employees. The objectives of an organization should be reflective of the underlying reasons for running the business in the first place. Thus, objectives should be able to cover the growth, profitability, technology, offerings and market of an organization or business.
- **Goals:** This can be defined as a purpose towards which an endeavor is directed. In any given organization these goals need to be achieved by implementing strategies. Goals should be quantifiable, consistent and realistic—more than that they should be achievable. They can relate to factors like market (sizes and shares), products, finances, profitability, utilization, efficiency.
- **Strategy:** This can be defined as “the art of the general” and is basically a combination of the ends for which the firm is striving, which would be its goals and the means by which it is seeking to get there, which would be the organization's policies. The most important part of implementing a strategy is to see that the organization is moving in the right direction, which is the vision of the organization.

Organizations compile these goals and objectives in the form of statements which are known as mission statement and vision statements. A mission statement identifies the fundamental purpose of an organization. It refers to the customers and critical processes of the organization and informs the employees of the desired level of performance which is expected. A vision statement, which is quite similar to a mission statement, basically outlines the organizations goals and future.

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Features of an effective vision statement

- Clarity
- Descriptive
- Realistic aspirations
- Alignment (with organizational values and culture)

Strategic planning process

There are many different approaches to strategic planning; like the Draw-See-Think approach or the See-Think-Draw approach.

Goals, objectives and targets

Strategic planning is an integral part of the organizations. Good strategic planning should have a goals and objectives and a roadmap to achieve them. One important function of strategic planning is to develop it in such a manner that it can easily be changed to action plans. Most of the strategic plans refer to high level initiatives however fail to develop into an action plan which is required to achieve the set goals. Often plans are filled with concepts which do not relate to day-to-day realities for the employees who are expected to carry out the plan. Terms like plans, policies, goals, objectives, strategies, tactics and actions are some of the common terminology associated with strategic planning. Sometimes the definitions vary and tend to overlap and thus fail to achieve clarity in understanding. Most of the concepts that have been mentioned are time bound and specific and point towards future results which most models refer to as goals and objectives.

Objectives and goals can also be seen in terms of hierarchy, which is as follows:

TRO: Top Rank Objective

Second Rank Objective

Third Rank Objective

Another approach in setting goals is according to duration, i.e., short-term, medium-term goals and long-term goals. Short-term goals can be fulfilled fairly easily. On the other hand, long-term goals appear difficult to attain and achieving them might be cumbersome.

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1. Sign-Post Plans

A signpost can be defined as an event or threshold that indicates an important change in the validity or vulnerability of an assumption. Signpost forms the third and most important step in the Assumption-based planning (ABP), a planning method which assists organizations to prepare for change. It also makes plans based on assumptions of change that may or may not take place in future. This method was initiated and developed by the RAND Corporation in order to help the US Army in mid and long-range planning. The US Army found the system of ABP to be effective in uncertain environments as well.

A more specific definition of signpost is as follows: ‘A signpost is an event or threshold that indicates an important change in the validity or vulnerability of an assumption.’ The two important terms ‘validity’ and ‘vulnerability’ are matters of concern in the planning process. Emphasis is given in monitoring changes in the validity or correctness of load-bearing assumptions because if load-bearing assumptions loses its validity, i.e., if it fails, then the plan resting on these assumptions will also fail. Therefore, one major function of signpost is to warn us when a load-bearing assumption has lost its validity.

Signposts are important in any task as they remove issues that might hamper the development and growth of an organization. It has been seen while filling a detailed form many tend to ignore various steps to make the process shorter and simpler. However, when the application is processed, it is these same steps which are important and may be considered signposts in terms of whether the application can be processed or not. Signposting also set expectations about the length and complexity of a process. Signposts tell users what is expected of them and what preparations they need to make in order to succeed. Signposts also act as confirmations that a task is being performed correctly. One thing to keep in mind while using signposts is that they need to be kept simple. Signposts not only reinforce progress indicators but also give feedback about the stages of the process and pace your progress accordingly. If a project is not progressing on time or there is a delay, signposts will also help in identifying those issues.

2. Synergic Plans

The term ‘synergic’ can be defined as working with others for a common purpose or benefit. Therefore, synergic plans refer to plans which involve team work. Team work is significant for any organization or company. For any organization to succeed, it is essential to have effective tasks and a logical end. Thus, in an organization, planning and team work play an important role in completing a task with optimum results. Planning is key to an organization as it supports its goals and objectives to be fulfilled on time and within a budget. A good plan that has been clearly communicated and shared by all team members is imperative for effective teamwork. Synergistic planning involves three phases, i.e., strategy, planning and execution.

Objectives, Goals and Strategies

Objectives: Collaboration and cooperation are required while working together as a team. For the smooth functioning of an organization, teamwork is essential as when people work in teams more can be accomplished. Communication of ideas and thoughts amongst team members can lead to best solutions. Knowing and understanding the objectives of an organization is the first step in synergic planning.

- (i) **Goal and Overall Structure:** Prior to starting off a project, an end goal needs to be kept in mind. This goal should be clear and well-stated to all members of the team. The team needs to be aware of the goal and prepare accordingly to accomplish it. A team leader should look over all the developments taking place in the team. If the project is relatively large, then the leader can create small teams within the team and divide tasks accordingly.
- (ii) **Team Members and Commitment:** The term ‘team’ can be defined as a group of two or more individuals. In order to function efficiently, each and every team member needs to be aware of the other’s skills, abilities and qualifications so they can decide where a particular person can be applied to a particular project. It is important to assign individuals tasks based on their capabilities so that the team can accomplish the goal successfully on their first attempt. It is not necessary that the team members will agree with one another on every aspect, however it is important for them to be committed towards the project and listen to each member’s views and then choose the right plan so the project succeeds. To achieve success, it is also important that each team member puts aside their personal goals and focus on the overall goal of the team.

Goals: In order to succeed in life, it is important for individuals to set goals. Similarly, goal setting is important for organizations as well because when goals are set, plans for the future are made. Being an efficient leader of a team, one has to be able to envision the future. A leader must make his vision strong and clear so that others are able to see it and there is no confusion. Having a vision means that a leader has a plan and knows where the organization is moving. Once a leader creates a vision for his team, he must share that vision with he team. As to succeed, they need to see and understand what their leader has envisioned. A leader also needs to keep his vision plain and simple so that it is easily comprehended by all. People want to know that they are contributing to a larger cause and that their efforts count. A leader is a person who will inspire his team and therefore should be positive and full of energy. A leader’s enthusiasm towards the achievement of goals will constantly encourage his team to also work towards the goals of the organization.

Strategies: An effective teamwork strategy will bring people together in order to work towards a common goal. If a leader encourages his or her team to work in harmony, team members automatically learn to work effectively. Encouragement

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by seniors inspires team members to share ideas with their colleagues and work towards their common goal. It has been aptly said that ‘two heads are better than on.’ Therefore, bringing together a group of individuals who each have ideas will lead the team to obtain best results. Teamwork is not only effective in organizations and offices, but is also effective in schools, sports and other activities within the community.

3. Standing Plans

Standing plans constitute the following:

- **Policies:** Policies, being formal statements, serve as ready guides for answering numerous questions and making many day-to-day routine decisions, especially about recurring problems, thus freeing management’s time for more important and unique decisions. This helps improve the efficiency of operations. If the policies are clearly understood and adhered to by all, then there will be fewer problems and fewer complaints to start with. There may be separate policies for separate functions but they must be all co-ordinated, thus serving the consistency of purpose.

Appropriate policy guideline enables managers to anticipate and take action for a given set of situational variables. There are organizational policies formulated for all types of situations and functions. There may be sales policies, production policies, personnel policies and so on. For example, personnel policies would specify decisions regarding selection, training, remuneration, labour relations, promotion of personnel and so on.

According to Newman, Summer and Warren, a policy may:

1. Be specific or broad in nature
2. Deal with one or many aspects of a problems or a situation
3. Place wider or narrow limits within which action is to be taken
4. Specify the steps to be taken when a decision is to be made

Policies are useful indicators of the conduct and the philosophy of the company and about what the company stands for. These policies being formal statements can easily be communicated to the organizational members as well as the outside public. A policy is a statement and a pre-determined guideline that provides direction for decision-making and taking action. Policies are usually general enough to give the manager sufficient freedom to make judgements, while at the same time, they are specific enough to establish constraining boundaries. For example, regarding employment, a company policy may be to employ personnel on merit alone without regard to race, sex or age and within the bounds of this policy, a manager can make decisions. Policies must be based upon a thorough analysis of the objectives and should be consistent with the company’s mission and philosophy.

Appropriate policy guideline enables managers to anticipate and take action for a given set of situational variables. There are organizational policies formulated for all types of situations and functions. There may be sales policies, production policies, personnel policies, and so on. For example, personnel policies would specify decisions regarding selection, training, remuneration, labour relations, promotion of personnel, and so on.

There are also other types of standing plans like procedures, rules, methods. But we will discuss them in Unit 4 Decision Making.

4. Single-Use Plans

Single-use constitute the programmes, budgets, and projects. We will discuss these in detail in Unit 4 Decision Making.

3.6 PLANNING AND DECISION MAKING: PLANNING PROCESS

Planning can be considered as a series of sequential steps. These steps are:

Step (1). Establish and define clearly the central and overall objectives of the organization. A well-defined objective can make the difference between success and failure of an enterprise. It clearly defines the product or service as well as the purpose of the company. Along with the overall mission of the company, it is also necessary to establish the specific objectives and goals. For example, the over-all objective of a hospital is to provide quality health care.

Step (2). Determine your current position relative to your objectives. Make an assessment of your strengths and weaknesses. This will show the distance the company has to cover before “reaching its goals. The analysis of current strengths and weaknesses would determine if the goals are realistic and achievable and whether they need to be re-evaluated and modified.

Step (3). Develop forecasts and future conditions. In order to effectively plan, it is important and necessary to forecast as accurately as possible, the future trends that will affect the company’s standing and operations. The factors of forecast will include general economic conditions, changes in consumer attitudes, new technological and product developments, possible competitive strategies and any adverse legal developments.

Step (4). Preparation of derivative plans. Once an overall plan has been adopted, it is necessary to develop other derivative plans for each segment of the company, to support the formal plan. Derivative or sectional plans are developed in each area of the business, but within the framework of the primary plan in order to coordinate and integrate programs and policies of all sections of the enterprise.

Step (5). Implement the plan and evaluate its results. The success of the plan would depend upon how effectively the plan is implemented. This implementation

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is going to require a combination of all skills and coordination of all factors. Also in this ever-changing dynamic environment, it is necessary to keep the plan open to evaluation and modification. The plans should be periodically re-evaluated to measure its progress and effectiveness so that any deviations can be corrected and any adjustments can be made.

Check Your Progress

4. Who first describe and advocated the concept of Management by Objectives?
5. What are standing plans?
6. Define synergic plans.
7. What is the purpose behind making derivative plans?

3.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Objectives ensure maximum utility of managerial time and efforts.
2. The different types of premises are: internal and external, controllable, semi-controllable and uncontrollable; tangible and intangible; and constant and variable premises.
3. A clear mission statement is concise, focused, worthy imaginative and realistic.
4. Management by objectives was first described and advocated by Peter Drucker in 1954 in “The Practice of Management.
5. Standing plans are those that remain roughly the same for long periods of time and are used in organizational situations that occur repeatedly.
6. Synergic plans refer to plans which involve team work. Team work is significant for any organization or company.
7. Once an overall plan has been adopted, it is necessary to develop other derivative plans for each segment of the company, so as to support the formal plan. Derivative or sectional plans are developed in each area of the business, but within the framework of the primary plan in order to coordinate and integrate programs and policies of all sections of the enterprise.

3.8 SUMMARY

- A number of management thinkers have given their own definition of planning, with the central core being that of making decisions now that will affect the future of the company.

- Nature of planning: A good plan is based upon clear, well-defined and easily understood objectives, A good plan must be simple and comprehensive. It should be well-balanced, but flexible, every plan should be time-bound, the plans should involve participation by subordinates, and planning must be initiated by different managers of different divisions at different times.
- Principles of planning: Keep aims crystallized, . Develop accurate forecasts, The plan must be a sound one, Involve subordinates in the planning process, Assign planning responsibility to the right people, Don't be over-optimistic, Decide in advance the criteria for abandoning a project, Keep your plan flexible, Review long-range plans on a short-range basis, Fit the plan to the environment, etc.
- Planning premises refers to the forecasts or predictions about the environment in which the plans are going to operate. They are basically assumptions or anticipated environmental conditions. Premises can be of varied types: Internal and external premises, Tangible and intangible premises, Controllable, Semi-controllable and non-controllable premises and Constant and variable premises.
- MBO is the philosophy of management that emphasizes that managers and subordinates work together in identifying and setting up objectives and make plans together in order to achieve these objectives. These objectives should be consistent with the organization mission and goals.
- Organization plans are usually divided into four types, namely *sign-post plans*, *synergic plans*, *standing plans* and *single-use plans*. Standing plans are those that remain roughly the same for long periods of time and are used in organizational situations that occur repeatedly. The most common kinds of standing plans are policies, procedures and rules. Single-use plans focus on relatively unique situations within the organization and may be required to be used only once. These plans can be subdivided into programmes and budgets.
- Planning can be considered as a series of sequential steps. These steps are: Establish and define clearly the central and overall objectives of the organization, Determine your current position relative to your objectives, Develop forecasts and future conditions, Preparation of derivative plans and Implement the plan and evaluate its results.

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3.9 KEY WORDS

- **Planning:** It refers to the continuous process of making present entrepreneurial decisions systematically and with best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of these decisions against the expectation through organized, systematic feedback.

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- **Premise:** The strengths and weaknesses of the organization and its knowledge and assumptions about its environment.
- **Policies:** It refers to the general guidelines or constraints that aid in managerial thinking and action.
- **Plans:** These are specific objectives and action statements.
- **Objectives:** It refers to the goals to be met and the action statements are the means to achieve these ends.
- **MBO:** Management by Objectives is the philosophy of management that emphasizes that managers and subordinates work together in identifying and setting up objectives and make plans together in order to achieve these objectives.

3.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What are the three characteristics of the planning process?
2. Write a short note on the components of planning.
3. Briefly describe the nature of planning.
4. List the characteristics of sound objectives.
5. What are the disadvantages of the planning process?
6. What are the principles of planning?

Long Answer Questions

1. Explain the concept MBO.
2. Describe the different types of plans.
3. What is strategic planning?
4. Discuss the planning process.

3.11 FURTHER READINGS

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UNIT 4 DECISION MAKING

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Structure

- 4.0 Introduction
- 4.1 Objectives
- 4.2 Meaning and Types
 - 4.2.1 Types of Decision Making and the Factors
- 4.3 Decision-Making Process Under Conditions of Certainty and Uncertainty
- 4.4 Rational Decision-Making Strategies
- 4.5 Procedures, Methods, Rules, Projects and Budgets
- 4.6 Answers to Check Your Progress Questions
- 4.7 Summary
- 4.8 Key Words
- 4.9 Self Assessment Questions and Exercises
- 4.10 Further Readings

4.0 INTRODUCTION

Decision making and problem solving is a core function of management because it is an integral part of all other managerial functions such as planning, organizing, directing and controlling. It is also an integral part of life because life cannot be managed without making decisions. We are always faced with situations where we have to make choices almost every day of our lives and making a choice out of many constitutes a decision. This decision may be a simple one such as choosing clothes to wear, selecting food from a menu or deciding general activities for the day or it may be a major decision such as changing a job or purchasing a house.

In this unit, we will learn about the meaning and types of decision making, the concept of decision-making process under conditions of certainty and uncertainty, the idea of rational decision-making strategies and concepts of procedures, rules, projects and budgets.

4.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the meaning and types of decision making
- Describe the principles of decision-making
- Explain the decision-making process under conditions of certainty and uncertainty
- Examine the concept of rational decision-making strategies
- Recollect the concepts of procedures, rules, methods, projects and budgets.

4.2 MEANING AND TYPES

According to Peter C. Fishburn,

Solving the decision model consists of finding a strategy for action, the expected relative value of which is at least as great as the expected relative value of any other strategy in a specified set. The prescriptive criterion of a strategy will be maximization of the decision maker's total expected relative value.

Decision-making is a complex mental exercise. Some of the decisions we make are highly significant with important consequences. The more significant ones very often need the exercise of considerable analytical judgement and the quality of such judgment is the backbone of successful decisions. These judgements must eliminate the root causes of the problems that have necessitated such decisions. Ineffective decisions attack only the symptoms and are only cosmetic in nature. They may solve the problem on the surface or on a short run basis, but in order to find a lasting solution, the problem must be attacked at its roots.

All problems have to be faced and solved. No person can avoid problems and ignoring a problem is never a solution. From the organizational point of view, the decision-making process is such an integral and important part of management that some management thinkers propose that management is simply a decision-making process. They call it the 'decision theory school of management.' The basic emphasis of this school is not on people or environmental variables influencing the management behaviour but on the process of decision-making and the theory that all management thought can be built around it.

4.2.1 Types of Decision Making

Programmed decisions

These are generally routine, repetitive and applicable to known problems. These decisions generally handle well-structured problems which are familiar, complete and easily defined and analysed. For example, if you buy some merchandise and it turns out to be defective, you can take it back for a refund. The management has already established a set of rules, policies and procedures to deal with such a situation like refunding on defective merchandise. This decision of refunding would be a programmed decision.

A *rule* is a specific policy statement about the conduct of certain affairs. For example, a rule may dictate that a person who comes in late to work will face a certain disciplinary action. A rule is frequently used when confronting a well-structured problem.

A *procedure* is a series of steps, sequential in nature and inter-related, designed to address a well-structured problem. Procedure is a kind of direction in using a series of steps in either diagnosing a problem or solving it. For example, if your car is not working, the mechanic has the manual of procedures to check for trouble and follow procedures to correct it.

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A *policy* is a general guideline which sets up parameters for the management within which to operate and is general and judgemental in nature. For example, the policy of a company may be, 'the customer is always right'. But it is left to the manager to rightfully interpret this policy in a particular situation.

Non-programmed decisions

These decisions are decisions which are a result of unexpected and unprecedented situations. For examples, decisions taken with regards to launching a brand new product in a brand new market would come under non-programmed decisions. The text-book or previously taken decisions are not available or applicable for such decisions as they occur as a fresh or new activity for the management. Naturally, these decisions have unknown ramifications and therefore they become very complex in nature. In such decisions a new creative process is required so that specific requirements of the newly arisen situation can be handled keeping in mind the best interests of the company.

Check Your Progress

1. What is the basic premise of the 'decision theory school of management'?
2. Define policy.

4.3 DECISION-MAKING PROCESS UNDER CONDITIONS OF CERTAINTY AND UNCERTAINTY

Basically, there are three types of circumstances in which the decisions are to be made. These are:

1. Decisions under certainty
2. Decisions under risk
3. Decisions under uncertainty

We shall discuss each of these conditions separately

1. Decision Under Certainty

This is the simplest form of decision making. The condition of certainty exists when there is no doubt about the factual basis of a particular decision and its outcome can be predicted accurately. There is just one state of nature for each alternative course of action and there is complete and accurate knowledge about the outcome of each alternative. We would simply select the alternative with the best outcome.

If the number of alternatives is relatively small then the outcomes can be compared with each other, either all at 'once and then picking the best or two at a

time, comparing the two and discarding the inferior alternative and the better one of the two is compared with the next one and the inferior alternative discarded and so until all outcomes have been compared and the best one identified.

However, if the number of alternatives is large then some mathematical tools such as linear programming and deterministic inventor models are available to identify the best alternative.

Some situations of decision making under certainty include the allocation of resources to various product lines where the manager knows the relationship of resources to the finished goods and their values. The alternatives are evaluated by conducting cost studies of each alternative and then choosing the one which optimizes the utility of these resources. In the area of quantitative methods, problems relating to linear programming techniques which deal with the problems of using limited resources of a business to obtain a particular objective within given condition or constraints; transportation problems where certain transporting vehicles are dispatched to certain destinations in order to minimize the total costs of entire transportation operation; assignment problems where certain jobs are assigned to certain machines in order to minimize the total costs, are all examples of decision making under conditions of certainty.

Another example would be buying a new car. Once the decision to buy the car has been made, there are a number of alternatives in which the payment for the car can be made. These alternatives are paying with all cash, part cash and part loan, all loan so that you can put your own money to other quantifiable uses or lease the car for monthly or yearly rental. It is possible to calculate the total cost of each of these alternatives and choose the one which gives you the lowest cost.

2. Decisions Under Uncertainty

The concept of risk and uncertainty can be better explained and understood in contrast to the concept of certainty. Here, let us have a closer look at the concept of certainty and then proceed to explain the concepts of risk and uncertainty. Certainty is the state of perfect knowledge about the market conditions. In the state of certainty, there is only one rate of return on the investment and that rate is known to the investors. That is, in the state of certainty, the investors are fully aware of the outcome of their investment decisions.

Let us now look into the precise meaning of the terms risk and uncertainty in business decisions. Risk in common parlance, risk means a low probability of an expected outcome. From business decision-making point of view, risk refers to a situation in which a business decision is expected to yield more than one outcome and the probability of each outcome is known to the decision makers or can be reliably estimated.

There are two approaches to estimate probabilities of outcomes of a business decision, viz., (i) a priori approach, i.e., the approach based on deductive logic or intuition, and (ii) posteriori approach, i.e., estimating the probability statistically in

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the basis of the past data. In case of a priori probability, we know that when a coin is tossed, the probabilities of 'head' and 'tail' are 50:50, and when a dice is thrown, each side has 1/6 chance to be on the top. The posteriori assumes that the probability of an event in the past will hold in future also. The probability of outcomes of a decision can be estimated statistically by way of 'standard deviation' and 'coefficient of variation'.

Uncertainty refers to a situation in which there is more than one outcome of a business decision and the probability of no outcome is known or can be meaningfully estimated.

The unpredictability of outcome may be due to lack of reliable market information, inadequate past experience, and high volatility of the market conditions. For example, if an Indian firm, highly concerned with population burden on the country, invents an irreversible sterility drug, the outcome regarding its success is completely unpredictable. Consider the case of insurance companies. It is possible for them to predict fairly accurately the probability of death rate of insured people, accident rate of cars and other automobiles, fire accident rate of houses, and so on, but it is not possible to predict the death of insured individual, a car meeting an accident or a house catching fire, etc.

The long-term investment decisions involve a great deal of uncertainty with unpredictable outcome. But, in reality, investment decisions involving uncertainty have to be taken on the basis of whatever information can be collected, generated and guesstimated. For the purpose of decision making, the uncertainty is classified as:

- (a) complete ignorance
- (b) partial ignorance

In case of complete ignorance, investment decisions are taken by the investors using their own judgement or using any of the rational criteria. What criterion he chooses depends on his attitude towards risk. The investor's attitude towards risk may be that of (i) a risk averter, (ii) a risk neutral, or (iii) a risk seeker or risk lover. In simple words, a risk averter avoids investment in high-risk business. A risk-neutral investor takes the best possible decision on the basis of his judgement, understanding of the situation and his past experience. He does his best and leaves the rest to the market. A risk lover is one who goes by the dictum that the higher the risk, the higher the gain. Unlike other categories of investors, he prefers investment in risky business with high expected gains.

In case of partial ignorance, on the other hand, there is some knowledge about the future market conditions; some information can be obtained from the experts in the field, and some probability estimates can be made. The available information may be incomplete and unreliable. Under this condition the decision makers use their subjective judgement to assign an a priori probability to the outcome or the pay-off of each possible action such that the sum of such probability distribution is always equal to one. This is called subjective probability distribution.

The investment decisions are taken in this case on the basis of the subjective probability distribution.

The conditions of uncertainty make the decision making process much more complicated. The decision maker has no idea or knowledge about the probabilities of the various states of nature and hence the expected values. of various alternatives cannot be calculated.

Such problems arise wherever there is no basis in the past experience for estimating such probabilities,” For example, in the case of marketing a new product, it is difficult to make judgements as to how much this product will sell in different geographical areas or about probabilities of selling certain predetermined quantities in these areas in order to make profit.

In such situations there is no single best criterion for selecting a strategy. However, there are a number of criteria, each justified by rationale and is a function primarily of the organization policies and the, attitude of the decision maker. The selection of a strategy would depend upon the criteria to be used. Some of these criteria are:

- (a) Criterion of pessimism.
- (b) Criterion of optimism.
- (c) Criterion of regret.

Check Your Progress

3. What are the mathematical tools used for decision-making under certainty in case the number of alternatives is large?
4. Define certainty.
5. What are the classifications of uncertainty in decision-making?

4.4 RATIONAL DECISION-MAKING STRATEGIES

Rational decision making is a process involving several steps that lead managers towards optimal decisions. It is a systematic and analytical approach which provides some guidelines as to how a decision should be made. There are ten sequential steps that can be followed and evaluated with continuous feedback at every step in order to fully analyze the problem and decide on a solution. These steps are shown as follows:

Step (1) Perception of the deviation and defining the problem. The deviation has been defined as the discrepancy between the desired and actual state of affairs. The greater this deviation, the more serious the problem is. This deviation must be perceived as it is and correctly since any solution to a wrong problem would be the wrong solution. This deviation could develop either because the performance slips when the goals remain constant or because the goals change and the performance remain constant.

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The problem, once isolated must be defined and formulated. A written problem statement should be developed, describing as specifically as possible the nature and the extent of the symptoms of the problem and when and where they occurred and what the underlying causes are thought to be. A written problem statement is easier to work on and more people can work on the problem at the same time. Furthermore, a written form provides an excellent form of communication to all parties concerned.

Step (2). Collection of relevant data. In order to determine the scope and the root cause of the problem, some information relevant to the problem must be collected. This information can be gathered from internal or from external sources, depending upon whether the external factors are responsible for the problem or internal factors or both. For example if the problem is general in nature such as the low morale of employees, then the behavioural aspects of work can be studied from the books, articles, surveys and published research reports so as to develop a model or a pattern and then the internal environment within the organization can be studied with respect to the model or pattern and solutions determined and applied.

Step (3) Diagnosis and analysis of the problem. The collected information is subjected to a systematic in-depth study. The quality and preciseness of information could determine the quality of the decision. If information cannot be entirely based upon facts, then judgements must be made about the degree of certainty and reliability of the information obtained.

Depending upon the type of problems being faced, the information with regard to the problem can be classified in four categories for further evaluation. These are :

- a) Facts.** Facts are those parts of information that can be sensed by our senses and can be related to objective reality as we know. Facts are considered to be totally accurate information and hence highly reliable for decision making purposes.
- b) Inference.** Inference is deduction about a situation based upon circumstantial evidence. The stronger the supporting evidence, the stronger the inference and hence the closer the inference is to facts.
- c) Speculation.** Speculation is subjective in nature and can only be construed on the basis of certain clues. Speculative conclusions are not necessarily verifiable. For example, a person may be behaving in a certain manner and you may not be able to explain in a satisfactory way the reasons for such a behaviour. However, you may speculate as to the reasons and these reasons may or may not be the correct reasons.
- d) Assumptions.** These are the least reliable as far as the factual basis of information is concerned. They are entirely subjective in nature and are mostly based upon personal lines of reasoning.

Step (4) Finding the root cause of the problem. Finding the very causes of the problem is the most important aspect of understanding the problem. The process is highly complex because the actual cause of a complex problem is embedded into many interdependent variables whose relationships may not be easily understood. The causes of the problem should not be confused with obvious symptoms. Symptoms are simply the indications of underlying causes so that the symptoms should not be construed as causes. For example, a recurrent sore on a finger may be due to skin cancer and hence the treatment should be for skin cancer rather than just the sore itself. Similarly, a manager's problem indicators are such factors as employee absenteeism, tardiness, negative attitudes, poor quality work and so on. The causes for these symptoms must be established before a solution can be found.

Step (5) Identification of resources and constraints. Before any efforts are made to solve the problem, a critical look must be made at the resources available to be used in the solution as well as any constraints which might make the solution unfeasible.

Since at any given time, there may be more than one problem, these problems must be prioritized according to the urgency and the resources available and the problem of the highest priority must get the first attention. The management must make a list of resources and constraints that are pertinent to a given problem. The constraints may involve worker attitudes.

Step (6) Development of criteria for successful solutions. Criteria are developed so that the alternative solutions for a problem under consideration can be compared against a set standard. The criteria should be established as early in the decision-making process as possible so that such alternatives that do not measure up to these criteria can be discarded. This encourages creativity in designing different courses of action that are feasible in order to select the best one. The criteria must be consistent with the objective function so that the decision that meets the criteria will achieve the given objective.

The decision maker uses a number of criteria against which alternatives can be compared in order to separate the best alternative from other alternatives. The best alternative would be the one which meets all the established criteria with the most beneficial results. The major criteria, of course, for any organizational decision is the maximization of profits, usually on a long term basis.

Step (7) Generation and development of alternatives. The next step in the decision-making process is to generate possible solutions and their consequences to the organization. All possible solutions should be considered because the most obvious solution may not be the optimum solution. However, creativity should be encouraged so that the focus can be shifted to unique solutions. The degree and depth of creativity would greatly influence the quality of the decisions and consequently the results of actions that are based upon such decisions. Creativity must not be locked by personal values or perceptions about the problem. It must

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be objective and removed from emotions and cultural taboos that might affect the outcome of the decision.

Creativity is very important since it assists in developing a variety of alternatives. A lack of creativity puts constraints on the number of solutions and hence may evade the best solution. Creativity is specially necessary for unique problems and those recurring problems for which the used solutions do not effectively work. Creativity is basically the generation of new and innovative ideas or using old ideas in a new way from unsuspecting angles.

Step (8) Evaluating alternatives and selecting an alternative. The evaluation of alternatives and selecting the best alternative with the most advantages is the most critical part of the decision making process. A wrong choice would negate the effects of all efforts put in the preparation of the process. Finding the optimal choice requires the consideration of the possible impact of all alternatives in such a manner so that the chosen course of action will not only meet the requirements of the objectives but also eliminate the root cause of the problem. Some of the criteria against which the alternatives are to be measured are quantitative in nature such as return on investment, market share or net profits. Some other criteria are qualitative in nature such as consumer attitude, employee morale, ethics of the organizational mission and so on. The bottom line in any decision criterion is the benefit derived from it in financial terms. This may be in the form of cost effectiveness which means that for a given cost, the alternative with a greater degree of achievement of objective will be selected. Similarly, for a set level of achievement, the alternative with a lower cost will be accepted.

No matter how tangible the methodology of the decision making process may be, the effect of the personal judgement of the decision maker in choosing the best alternative is always dominant. This judgement will be a reflection of current management values, ethics, social commitment and the organizational politics. This judgement cannot be quantified and hence must be based upon strong intuition and past experience.

Step (9) Implementation of the decision. Implementation means putting the selected alternative into action and seeing it through to its completion. The process of implementation starts with assigning responsibilities to persons who will be involved in carrying out the decision. The possibility of any resistance to changes should be examined, specially if it affects or conflicts with personal values and personalities and group norms or group objectives, if the decision has to be carried out by a group. The implementation, of course, becomes easier if the persons implementing it and persons affected by it were also involved in the decision making process and if they have some stake, financial or otherwise in the success of the solution.

Step (10) Monitoring feedback. Feedback provides the means of determining the effectiveness of the implemented decision. If possible, a mechanism should be built into the process which would give periodic reports on the success of the

implementation. In addition, the mechanism should also serve as an instrument of “preventive maintenance” so that the problems can be prevented before they occur.

In many situations, computers are very successfully used in monitoring since the information retrieval process is very fast and accurate and in some instances, the self-correcting is instantaneous.

Monitoring the decision is necessary and useful irrespective of whether the feedback is positive or negative. Positive feedback reaffirms the correctness of the decision and the process. Negative feedback indicates either that the implementation requires more time, resources, efforts or planning than originally thought or that the decision was a poor one and needs to be re-examined.

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4.5 PROCEDURES, METHODS, RULES, PROJECTS AND BUDGETS

We have discussed the types of plans in Unit 3. Some crucial categories of Standing Plans essential to the decision-making process are procedures, rules and methods. Let's study them in the concept of managerial decision making.

- **Procedures:** While policies cover a broad area of action, procedures prescribe the exact manner in which an activity is to be completed. It is a series of steps established to accomplish a specific project. These generally indicate how a policy is to be implemented and carried out. These are more precise guidelines permitting little or no individual discretion. Procedures can be defined as a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished.
- **Rules:** While procedures specify a chronological sequence of steps to be performed, a rule is very specific and a narrow guide to action. These are plans that describe exactly how one particular situation is to be handled. For example, a company may prescribe a number of safety rules, such as ‘No smoking on company premises’. ‘No eating in the classroom’ is a rule in all schools and colleges. A rule is meant to be strictly followed and is generally enforced by invoking penalties.
- **Method:** A method refers to a prescribed process in which a particular operation of a task is to be carried out. It specifies the most efficient way of performing different steps in a task. It defines the technology of individual operations in a work situation. A method functions as a complete guide for individuals in their performance of tasks. Thus, it is important to determine the standardized, simplified and efficient methods of performing physical task by operatives. That is why even in modern computer systems standard methods are generated to instruct the computer what operations it has to perform in processing data.

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There are also some Single Use plans which are crucial to the decision-making process. Here we will study projects and budgets.

- **Budgets:** A budget is another single-use programme which is a financial plan that covers a specified period of time. This plan identifies as to how funds will be raised and how these funds will be utilized for procuring resources such as labour, raw materials, information systems and other business functions such as marketing, research and development, and so on. Every organization prepares a budget for its various activities. These budgets are usually for a one-year period at a time. When a specific budget period ends, the value of that budget as a planning device is finished, even though it may form the basis for the budget for the following period. In that respect, it is a single-use plan.
- **Projects:** A project is a single-use plan which is part of a general programme. It is defined as any scheme or a part of a scheme for investing resources, which may be analysed and evaluated as an independent unit. A project has a distinct mission and a clear termination point. It is a one-time crash programme. The essential features of a project may be summarized as follows:
 - o It is a non-recurring plan.
 - o The activity is definable in terms of specific objective.
 - o It involves time-bound activities.

Projects are very advantageous for managers. When the programme is set up in projects, the task of management becomes easier. There is a precise allocation of duties with a clear sense of responsibility. This makes the implementation of the plan easy.

Check Your Progress

6. Why does deviation occur in decision-making?
7. What is inference?
8. Which approach encourages the creative individual to think around the problem rather than attacking it directly?
9. Define method.

4.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The basic emphasis of 'decision theory school of management.' school is not on people or environmental variables influencing the management behaviour but on the process of decision-making and the theory that all management thought can be built around it.

2. A *policy* is a general guideline which sets up parameters for the management within which to operate and is general and judgemental in nature.
3. If the number of alternatives is large then some mathematical tools such as linear programming and deterministic inventory models are available to identify the best alternative.
4. Certainty is the state of perfect knowledge about the market conditions. In the state of certainty, there is only one rate of return on the investment and that rate is known to the investors.
5. For the purpose of decision making, the uncertainty is classified as:
 - (a) complete ignorance
 - (b) partial ignorance
6. Deviation in decision-making could develop either because the performance slips when the goals remain constant or because the goals change and the performance remain constant.
7. Inference is deduction about a situation based upon circumstantial evidence. The stronger the supporting evidence, the stronger the inference and hence the closer the inference is to facts.
8. The synectic approach encourages the creative individual to think around the problem rather than attacking it directly and look for minute and novel elements in the problem or the situation that could create a different angle of approach to the problem.
9. A method refers to a prescribed process in which a particular operation of a task is to be carried out. It specifies the most efficient way of performing different steps in a task. It defines the technology of individual operations in a work situation. A method functions as a complete guide for individuals in their performance of tasks.

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4.7 SUMMARY

- Decision making and problem solving is a core function of management because it is an integral part of all other managerial functions such as planning, organizing, directing and controlling. It is also an integral part of life because life cannot be managed without making decisions.
- Programmed decisions are generally routine, repetitive and applicable to known problems. These decisions generally handle well-structured problems which are familiar, complete and easily defined and analysed.
- Non-programmed decisions are decisions which are a result of unexpected and unprecedented situations. For examples, decisions taken with regards to launching a brand new product in a brand new market would come under non-programmed decisions.

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- There are three types of circumstances in which the decisions are to be made. These are:
 1. Decisions under certainty
 2. Decisions under risk
 3. Decisions under uncertainty
- Rational decision making is a process involving several steps that lead managers towards optimal decisions. It is a systematic and analytical approach which provides some guidelines as to how a decision should be made. There are ten sequential steps that can be followed and evaluated with continuous feedback at every step in order to fully analyze the problem and decide on a solution.
- While policies cover a broad area of action, procedures prescribe the exact manner in which an activity is to be completed. It is a series of steps established to accomplish a specific project. These generally indicate how a policy is to be implemented and carried out.
- While procedures specify a chronological sequence of steps to be performed, a rule is very specific and a narrow guide to action. These are plans that describe exactly how one particular situation is to be handled.
- A method refers to a prescribed process in which a particular operation of a task is to be carried out. It specifies the most efficient way of performing different steps in a task. It defines the technology of individual operations in a work situation.
- Budget is a single-use programme which is a financial plan that covers a specified period of time. This plan identifies as to how funds will be raised and how these funds will be utilized for procuring resources such as labour, raw materials, information systems and other business functions such as marketing, research and development, and so on.
- A project is a single-use plan which is part of a general programme. It is defined as any scheme or a part of a scheme for investing resources, which may be analysed and evaluated as an independent unit.

4.8 KEY WORDS

- **Risk:** It refers to a situation in which a business decision is expected to yield more than one outcome and the probability of each outcome is known to the decision makers or can be reliably estimated.
- **Uncertainty:** It refers to a situation in which there is more than one outcome of a business decision and the probability of no outcome is known or can be meaningfully estimated.
- **Rational Decision-making:** It is a systematic and analytical approach which provides some guidelines as to how a decision should be made.

4.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. Explain the concept of decision-making in management.
2. What are the categories in which information can be classified with regards to the evaluation of problem?
3. What is synectics approach?
4. What are projects and budgets?

Long Answer Questions

1. Discuss decision-making process under conditions of certainty and uncertainty.
2. Explain the concept of procedures, methods and rules.
3. Describes the steps involved in rational decision-making process.

4.10 FURTHER READINGS

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BLOCK II

RECRUITMENT AND SELECTION

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UNIT 5 ORGANIZING

Structure

- 5.0 Introduction
- 5.1 Objectives
- 5.2 Nature, Importance, Purpose and Scope
 - 5.2.1 Principles of Organizing
 - 5.2.2 Organizing Functions of Management
- 5.3 Organizations: Classifications and Principles and Theories
 - 5.3.1 Classifications of Organization
 - 5.3.2 Principles of Organization
 - 5.3.3 Theories of Organization
 - 5.3.4 Guidelines for Effective Organizing
- 5.4 Organizational Culture and Global Organizing
- 5.5 Answers to Check Your Progress Questions
- 5.6 Summary
- 5.7 Key Words
- 5.8 Self Assessment Questions and Exercises
- 5.9 Further Readings

5.0 INTRODUCTION

The organizing function of management is concerned with developing a framework where the total work is divided into manageable components in order to facilitate the accomplishments of objectives. The organization can be defined as two or more people working together in a coordinated manner to achieve the common goals. The organization has set objectives, the relative arrangements of people and physical resources, a set of rules and regulations and a hierarchial structure of authority with formal lines of communication. In this unit, we will learn about the concept of organizing, its principles and scope, the organizing functions of management

5.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the nature of organizing
- Explain the principles of organizing
- Discuss the importance and scope of organizing

- Identify the organizing functions of management
- Discuss the principle and theories of organization
- Examine the functions of organizational culture

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5.2 NATURE, IMPORTANCE, PURPOSE AND SCOPE

The word **organization** is used and understood widely in our daily lives. It has been defined in a number of ways by psychologists, sociologists, management theorists as well as practitioners. Let's learn a little bit about the concept of organization. Chester Barnard, a well-known management practitioner, nearly sixty years ago, still remains popular among organization and management theorists. According to him, an organization is, a system of consciously coordinated activities or efforts of two or more persons. In other words, a formal organization is a cooperative system in which people gather together and formally agree to combine their efforts for a common purpose. It is important to note that the key element in this rather simplistic definition is conscious coordination and it implies a degree of formal planning, division of labour, leadership and so on. For example, if two individuals agree to push a car out of a ditch, as a one-time effort, then these individuals would not be considered as an organization. However, if these two individuals start a business of pushing cars out of ditches, then an organization would be created. More recently, Bedeian and Zamnuto have defined organizations as "social entities that are goal directed, deliberately structured activity systems with a permeable boundary". There are four key elements in this definition:

1. Social entities:
2. Goal directed:
3. Deliberately structured activity systems
4. Permeable boundary

Importance, Purpose and Scope

Organizing is the second major function of management. If planning involves the determination and achievement of objectives, then organizing is the process of selecting and structuring the means by which those objectives are to be achieved. The organizing process deals with how the work is to be divided and how coordination of different aspects is to be achieved and so on. We are truly a society of organizations. All work has to be organized efficiently in order to use the resources available to us in the most efficient manner. One reason for organizing is to establish lines of authority. This creates order within the organization. Absence of authority almost always creates chaotic situations and chaotic situations are seldom productive—hence, the importance of organizing efforts well. Effective organizations include coordination of efforts and such coordination results in synergy.

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Synergy occurs when individuals or separate units work together to produce a whole greater than the sum of the parts. This means that $2 + 2 = 5$. Furthermore, organizing is important to improve communication among the members. A good organizational structure clearly defines channels of communication among the members of the organization. Proper and correct communication is one of the keys to success. Most people believe that organizations are social entities and social forces such as politics, economics, and religion shape organizations. Some organizational theorists suggest the opposite. They say that it is the large organizations which influence politics and economics. Social class is determined by rank and position within the organization. Organization is the essence of living. An organized family is more productive than a disorganized family. All families depend on business organizations for their livelihood.

Organizations shape our lives, and better managers can shape effective organizations. However, it is not just the presence of organizations that is important but also the knowledge of organizing. Consider how the Olympic games are organized or how large airports are built. Without proper organization of people and resources the project could not be successful. Consider the organization of forces and resources during the Gulf War of 1991. All air assets reported to a single army General. This enabled the extraordinary coordination of up to three thousand flights a day. A new problem arose somewhere in the Gulf every minute but the efficient organization of resources solved all these problems.

5.2.1 Principles of Organizing

The principles of organizing can be understood as:

- 1. Principle of Functional Definition:** Organizing requires the different duties, responsibilities, authority and relationships to not only be identified clearly but also be allocated to people in a systematic fashion. This clear definition of relationships between managers and subordinates ensures that coordination and organization occurs in a harmonious fashion.
- 2. Principle of Supervision:** This principle gives a guideline or structure as to how many subordinates or junior employees can be handled or supervised by a single manager. The span of control specifies their area of control in the organizational structure. There can be two types of span of control: wide or narrow. Each type of differentiation has its own benefits and disadvantages. It is based on the cost of supervision, employee's responses, communication infrastructure, nature of job, etc.
- 3. Principle of Specialization:** The division of work is done in an organization to ensure that maximum efficiency is achieved. The work is divided or delegated on the basis of skills, qualifications and abilities of the subordinates.
- 4. Principle of Scalar chain:** The work flow or the chain of command in an organization which follows the direction of top to bottom is known as the

scalar chain. It ensures easy organization, minimization of wastage, avoidance of duplication of duty and many other benefits. Here the managerial and subordinate hierarchy is clear at every stage.

- 5. Principle of Unity of command:** This principle dictates that one subordinate be answerable or accountable to one manager at a time. This ensures that the unity of command in the sense that the responses and coordination are very clear and prompt. There is effective utilization of resources and therefore effective coordination and organization of functions. It also makes sure that the communication is very clear and that there is stability in the organization.

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5.2.2 Organizing Functions of Management

The organizing functions which are undertaken by a manager in an organization are:

- 1. Recognition and identification of tasks:** This step requires the managers to first be aware of all the activities or functions that are required to be performed in order to achieve the objectives of the organization. This involves every activity like production, sales, record keeping, quality control, preparation of accounts, inventory management amongst others.
- 2. Departmentation of activities:** After the identification of activities, it is important that these are segregated and combined with different activities so that all the tasks of similar nature are under one department.
- 3. Authority and Delegation:** Next to the departmentation function is complete, it is time to clarify and designate the span of control of managers overseeing these different departments and the various managers who will be helping them carry out these functions in these departments. This is then followed by the hierarchical division of authority to establish a chain of command. It is this step which clarifies broad functions like policy making for top managers, departmental supervision for middle level managers and supervision of foreman by the low level managers.
- 4. Coordination:** An important organizing function of management is to ensure co-ordination between different managers in the organization. This is important for the managers as they will be clear as to what becomes their responsibilities and who they are accountable to in the organization. Once the reporting chart of activities is clear, all the activities will go on smoothly.

Check Your Progress

1. Define social entities.
2. When does synergy occur?
3. What is a scalar chain?

5.3 ORGANIZATIONS: CLASSIFICATIONS AND PRINCIPLES AND THEORIES

NOTES

In this section, we will study the classifications of organizations and the principles and theories of organizations.

5.3.1 Classifications of Organization

Organizations can be of many types but a broad classification of organizations on the basis of their functioning includes the categories of a formal organization and an informal organization.

A **formal organization** typically consists of a classical mechanistic hierarchical structure. In such a type of structure, the position, responsibility, authority, accountability and the lines of command are clearly defined and established. It is a system of well-defined jobs with a prescribed pattern of communication, coordination and delegation of authority. The **informal organization**, similar to informal groups, on the other hand, comes into existence due to social interactions and interpersonal relationships and exists outside the formal authority system without any set rigid rules. Though unrecognized, it exists in the shadow of formal structure as a network of personal and social relations, which must be understood and respected by the management.

5.3.2 Principles of Organization

The three important steps involved in organizational structure and design are discussed as follows:

- (i) **Determination, identification and enumeration of activities:** Once the goals and objectives of the organization have been established, the activities required to achieve these objectives are identified. These activities are broken down into sub-activities as far down the hierarchy as possible so that each individual knows as to what part of the activity he is responsible for. Care must be taken so that all necessary activities are taken into account and any activity that is unnecessary is taken out. This process applies to both managerial operational activities.
- (ii) **Grouping and assigning of activities:** All similar activities are grouped together and assigned on the basis of divisions or departments. These sets of activities may further be sub-divided into sections or units. These groupings may be done on the basis of primary functions such as production, finance, sales, personnel and so on; or these may be done on derivative basis such as types of customers, geographical areas and so on. These activities are then assigned to personnel as heads of the departments, such as production managers, marketing managers, personnel directors and so on. They in turn delegate and distribute jobs to their subordinates down the line. Care should be taken that the personnel and their jobs are well matched.

(iii) Delegation of authority: Since the persons who are assigned particular activities are responsible for performing these duties to the best of their ability, they must be given corresponding authority to discharge their obligations. Responsibility and authority are tied together. Responsibility is really the accountability of authority. Authority without responsibility is a dangerous element. For example, if a marketing manager has the responsibility to increase sales, but does not have the authority to hire and maintain a competent sales force, then the responsibility in itself has little meaning.

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5.3.3 Theories of Organization

Based on the approaches of organization, some authors have developed theories of organization. They are known as classical theories, neoclassical theories and modern organizational theories. We have learnt about the management science and theories in Unit 2 of this book. Some of those ideas will be discussed here again.

1. Classical Theories

Classical theories are based on traditional thinking. These theories were first propounded in 1900 and incorporated original and initial ideas of management. The classical theories were devoted mainly to the superior's authority, objectives, rules and economic activities. The theories are broadly divided into: (1) Bureaucracy (2) Scientific management, and (3) Process management.

(A) Bureaucracy model

The bureaucratic model developed because some people wanted to dominate others in business and other activities. They organized men and materials for achieving objective for their personal benefits. This theory was given a formal shape by a German Sociologist, Max Weber, who believed that bureaucracy was an ideal weapon to harness human and physical resources. It is a formative model of organization characterized by a large and complex atmosphere with impersonal detachment from human resources. Rules, regulations, rigid hierarchy and specialized functions are important features of bureaucracy. It is the epitome of structural relationship to control.

Features: The hierarchy of authority involving the superior—subordinate relationship is the main feature of bureaucracy. The superior has more authority to control the subordinate. There is a chain of superior—subordinate relations. There is a clear-cut division of work upon which the structural organization is based, for getting the benefits of specialization and functionalization. Rules, regulations and procedure are considered to be important functional guidelines for management. The importance of routine, objectivity, uniformity and consistency are stressed under bureaucracy. Behaviour is controlled by rules and regulations. The discipline is judged from the extent of following of rules and regulations. Impersonal attachment

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is always observed in this type of organization. Personal, interpersonal and mutual relations have no place in the bureaucracy. Organizational forms, speed, use of files and strict subordination are observed in this type of organization. Rigidity and uniformity are basic principles of bureaucracy. Authority and power rest with the office. Persons occupying an office have all the legal power and authority of the office. The person is secondary and the methods are primary.

Assessment of bureaucracy: The bureaucracy model is unsuitable to the present requirements of management. It is just a machine model wherein people have to follow the methods and modes of the organization. It may be preferred where change is not needed. Government and military organizations are adopting this principle because their main purposes are discipline and complete follow up of the rules. It is not suitable in a business organization because of rigidity, its impersonal nature and mechanical methods of control. There is difficulty of coordination and control. It does not give satisfaction to employees because it does not give importance to their needs and motives. The bureaucracy model is present in military organizations, technical management red tape, officialdom and so on. Its disadvantages are being realised these days in public administration also.

(B) Scientific management

The scientific management theory was propounded by F.W. Taylor and was carried out by Frank and Lillian Gilbreth, Henry L. Gantt and Emerson. Taylor postulated that management was haphazard and inefficient at the time. The management was based purely on individuals' capacity. The personal talent of the manager guided the workers who were motivated by bonus and monetary benefits. F. W. Taylor therefore tried to find out the basic principles of management by using time and work study, detailed analysis, investigation and planning of work allocation. It is known as scientific management because systematized knowledge is used for work allocation and assignment of specific jobs. The salary, wages, etc., are to be decided as per the work performance of individuals. It revolutionized the entire shop or plant management. Industrial engineering and management was promoted by Taylor. He said that scientific management tries to perform the job in the best way.

Features: The essential features of scientific management are given below:

- (i) *Scientific Selection of Personnel:* F.W. Taylor places great emphasis on the scientific selection and training of workers. His theory stresses on selecting suitable persons for the job. All persons cannot perform a particular job. People have different capacities and attitudes and therefore are selected for the job best suited to them.
- (ii) *Incentives:* Workers are inspired to perform the job if they are paid according to their contributions. Taylor has, therefore, suggested a differential piece rate system for wage determination. It required planning, analysing, preparing and inspecting work performance and determination of standard production in a specific time. If a worker performs better than the standard he will be paid at a higher rate.

- (iii) *Functional Foremanship*: Workers themselves become supervisors because the worker performing the function is interested in getting more wages by producing more units. The supervisor has functional authority. He guides and directs the way of performing the job. Many supervisors based on different natures of jobs are guiding persons to perform their jobs effectively and efficiently.
- (iv) *Specialization*: Specialization is developed in scientific management. It points out the managerial and non-managerial functions. Persons capable of managing functions are given the jobs of planning and control, while workers with the capacity for work performance are put into production.
- (v) *Coordination*: Since the jobs are performed by different specialized persons, coordination of their activities becomes essential. The management should organise the activities in such a way that it can perform its activities effectively. Coordination between workers and managers as well as among themselves is essentially performed in scientific management.
- (vi) *Economic Performance*: Workers are considered economic beings. They utilize physical resources in the best manner possible in order to get maximum production out of human and physical resources.
- (vii) *Work Order*: Workers perform their jobs in a systematic order. The raw materials, machine and the time are used in a systematic way. This helps workers achieve maximum utilization of the capacities and resources available to them. The materialistic approach is always visible in the work order.

Scientific management instead of its relegated importance by self-centred managers has become the origin of scientific thinking in the field of management. The scientific practice of management has been replaced by well-recognized, clearly-defined and accurately-controlled technical management.

(C) Process management

Process management was propounded by Henry Fayol, wherein technical, commercial, financial security, accounting and managerial activities are well-defined. Henry Fayol in his book *General and Industrial Management*, published in 1916, described administration as the main component of management, having special features of the deductive theory—closed system, hierarchy, formal organization, organized groups and the universal principle of management. He said that the manager has the right to disseminate managerial functions and can exercise his discretion for getting things done through and with people. The employees are directed and controlled by managers. Process management was propagated by H. Simon, L.F. Luwick, L. Gulick, G. Terry and several others who pointed out that planning, organizing, motivating, coordinating and controlling are important functions of management.

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2. Neoclassical Theories

The classical theories concentrated on discipline and the economic well-being of people. They ignored their morale and desires. Neoclassical theories while accepting the merits of classical theories have given more importance to human relations and behavioural sciences. The neoclassical theories modified, added and extended the classical theories by realising the fact that management exists in a social system wherein human factors have cognizant roles to perform. Employees can play crucial roles in the decision-making process. Human Relations and Behavioural Science have become two important approaches of neoclassical theories.

(A) Human relations

The human relations theory was developed by Elton Mayo and his associates from 1924 to 1932 at the Hawthorne plant of Western Electric Company. They experimented in four phases: (i) Illumination experiments, (ii) relay assembly test, (iii) interviewing programmes, and (iv) the bank wiring observation room experiments. Illumination experiments revealed that light had no significant impact on the productivity of workers. The intensity of light did not influence the productivity of telephone relays. The relay assembly test provided several facilities to telephone relay assemblers, wherein it was observed that special attention and treatment caused employees to increase their productivity. It was termed as the Hawthorne effect, where people feel the pride of belonging to a group. The interviewing programme was tested on human relations rather than on favourable physical conditions. It revealed that employees are unwilling to answer direct questions. They gave important clues towards the management style when asked indirectly. The bank wiring room experiment gave sufficient freedom to an informal group. It revealed that employees were not only economic beings but social and psychological beings as well. Their productivity is influenced by sentiments, beliefs and the group behaviour of employees.

The Hawthorne experiments brought about the conclusions that the business organization also includes social and psychological factors. It considered organization as a social process where feelings, sentiments and attitudes were given due importance. Mayo and Roethlisberger of Harvard Business School postulated that efficiency and productivity could increase if the attitudes of employees were well regarded.

(B) Behavioural science

The Behavioural Science theory believes in interpersonal relations. While human relations concentrates on morale and productivity, behavioural science lays emphasis on interpersonal roles and relationships. Sociologists and psychologists contributed significantly to the areas of behavioural science for treating the human element as a social system. Group behaviour was given more importance. McGregor Arguris and Likert believed that self-actualized man would contribute

to the development of management. They emphasized democratic values and human motivation. The task itself is the primary source of satisfaction and self-motivation. Unlike the beliefs of the classical theory, behavioural science believes that human beings like work but it should not be super-imposed and should instead be self-realized. They enjoy work and believe in self-discretion and self-control. They are interested in their own jobs and creativity in a healthy, safe, comfortable and congenial environment. People consider themselves to be important persons and like to be treated as important people by their superiors. The behavioural science theory tries to develop new insights and brings about a congenial environment in the factory whereby new thinking and new techniques put forward by employees are welcome.

3. Modern Organizational Theories

Modern organizational behaviour has become complex. It synthesises the classical and neoclassical theories, while incorporating technological development. Modern organization theories are classified into quantitative, system and contingency.

(A) Quantitative theory

The quantitative theory includes operation research and quantification of the problem. It analyses the problems from quantifiable angles and provides solutions to complex problems only with the help of statistical and mathematical models such as linear and non-linear programming, game theory, decision tree, simulation and probability. Computers are used to solve management problems, whereas mathematical models were previously used for the purpose. A large number of problems are solved with the use of simulation equations and computers. The development of equations requires specialized skills and advance knowledge of mathematics, statistics, economics and behavioural sciences. Models are tested within the context of the real world and use of operation research.

(B) System theory

A **system** is a set of interconnected and interrelated elements of management activity. It is an arrangement of components of activities performed for achieving certain objectives. Thus, a system has three components: (i) arrangement, (ii) objectives and a (iii) plan. The arrangement is designed and planned in an effective manner to achieve the objective. Men, materials and money are planned to achieve the objectives of the organization. Recently, it has been agreed that the organization is a system wherein operation, marketing, finance, etc., are subsystems. The modern organization theory believes in the General Systems Theory (GST) which is applicable to all scientific phenomena. Kenneth and Boulding have contributed a systems theory to establish to single, self-contained and generalized theory for particular disciplines. The system approach believes in a static structure and a dynamic and cybernetic system. It has increased mobility, technological behaviour, self-awareness and the goal-directed approach. The system is an organization

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wherein the various components are subsystems which are managed and mobilized for attaining the organizational goals. It is an interconnected, interdependent and interacting arrangement of men and materials. For example, business is a social technical system, a plant is a botanical system, and a car is a mechanical system and so on.

Use of system theory in an organization: An organization is considered a dynamic system which evaluates, acts and interacts with the environment. It is open and incorporates all the changes and challenges of the social set-up. The organization consists of interacting and interdependent subsystems. Each subsystem is defined with its objectives, structure, processes and promises. The interdependence of subsystems is so great that the success or failure of a subsystem will certainly influence other systems. The success of an organization depends on the process of each subsystem and proper evaluation of the elements of the environment, namely men, materials, money and other factors. A technical subsystem, social subsystem, psychological subsystem and structural subsystem are considered in the organization.

(C) Contingency theory

The contingency theory is an extension of the open system. It has an adaptable approach which is applicable to all situations. Organizing a business based on changing situations and the environment has its own quality and advantages. It is ready to cope with the increasing needs of the company and society. The contingency theory is a situational theory which changes its approach according to the requirements of the situation. It is away from the angle of different theories of management, although it cannot claim that the valuable theories of management are not applied for solving the problem. It is an attempt to provide something more contributory for the help of practising managers.

The basic tenets of the theory are the relationships between various organizational subsystems. Suprasystems are established after focusing on the external and internal factors of environment. There is no prescribed managerial action or organizational design for management action. The best organization to be followed depends on the situation. It deals with a variety of organizational and environmental variables with empirical support.

5.3.4 Guidelines for Effective Organizing

There are some established guidelines that are common to all organizations that are structured in a classical form. The classical form means a bureaucratic structure where there is a hierarchy of power and responsibility and the directions primarily flow from the top management to the lower levels of workers through its hierarchical ranks. These guidelines are as follows:

- (i) The lines of authority should be clearly stated and should run from the top to the bottom of the organization. This principle is known as the 'scalar principle' and the line of authority is referred to as 'chain of command'. The

major decisions are made and policies are formulated at the top management level and they filter down through the various management levels to the workers. The line of authority should be clearly established so that each person in this chain of command knows his authority and its boundaries.

- (ii) Each person in the organization should report to only one boss. This is known as the ‘principle of unity of command’ and each person knows as to whom he reports to and who reports to him. This process eliminates ambiguity and confusion that can result when a person has to report to more than one superior.
- (iii) The responsibility and authority of each supervisor should be established clearly and in writing. This will clarify the exact role of the supervisor as to the limits of his authority. Authority is defined as ‘the formal right to require action from others and responsibility is the accountability of that authority’. With clearly defined authority and responsibility, it will be easier for the supervisor to trace and handle problems and make quick decisions when necessary.
- (iv) The senior managers are responsible for the acts of their subordinates. The manager or the supervisor cannot dissociate himself from the acts of his subordinates. Hence, he must be accountable for the acts of his subordinates. The authority and responsibility should be delegated as far down the hierarchical line as objectively possible. This will place the decision-making power near the actual operations. This would give the top management more free time to devote to strategic planning and overall policymaking. This is specially necessary in large complex organizations. This principle is known as decentralization of power as against centralized power where all decisions are made at the top.
- (v) The number of levels of authority should be as few as possible. This would make the communication easier and clear and the decision-making faster. A longer chain of command generally results in run-arounds because the responsibilities are not clearly assigned and hence become ambiguous. According to Gilmore, most organizations do not need more than six levels of supervision, including the level of the president.
- (vi) The principle of specialization should be applied wherever possible. Precise division of work facilitates specialization. Every person should be assigned a single function wherever possible. This rule applies to individuals as well as departments. The specialized operations will lead to efficiency and quality. However, each area of specialization must be interrelated to the total integrated system by means of coordination of all activities of all departments.
- (vii) The line function and the staff function should be kept separate. The overlapping of these functions will result in ambiguity. The line functions are those that are directly involved with the operations that result in the achievement of the company objectives. Staff functions are auxiliary to the

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line function and offer assistance and advice. For example, legal, public relations and promotional functions are all staff functions. The activities of line managers and staff managers should be coordinated so as to achieve synergetic results.

- (viii) The span of control should be reasonable and well established. The span of control determines the number of positions that can be coordinated by a single executive. The span of control could be narrow where there are relatively few individuals who report to the same manager or it could be wide where many individuals are under the supervision of the same manager. However, such a span of control would depend upon the similarity or dissimilarity of the subordinate positions and how interdependent these positions are. The more interdependent these positions are, the more difficult is the coordination. In such interlocking positions, it is advisable to have no more than five or six subordinates working under any one executive.
- (ix) An organization should be simple and flexible. It should be simple because it is easier to manage, and it should be flexible because it can quickly adapt to changing conditions. It should be such that it can easily be expanded or reduced, as the times demand. Furthermore, simplicity would make the communication much easier, fast and accurate, which is necessary for successful organizations. While these principles, in general, apply to classical organizations as proposed by Frederick Taylor and Henry Fayol, and have been adopted to facilitate administration, some more recent principles have evolved which have become an integral part of most modern organizations. These new principles of participative decision-making, challenging work assignments, management by objectives, decentralization of authority and so on, have been integrated with the traditional ones. The idea is to stimulate creativity, encourage growth and optimise the utility of all resources in reaching the goals of the organization.

5.4 ORGANIZATIONAL CULTURE AND GLOBAL ORGANIZING

Culture can be considered as a constellation of factors that are learned through our interaction with the environment and during our developmental and growth years. A growing baby learns a basic set of values, ideas, perceptions, preferences, concept of morality, code of conduct and so on through family and cultural socialization and such prevailing culture with which the member of the family is associated determines many of the responses that an individual makes in a given situation.

The organizational culture is a system of shared beliefs and attitudes that develop within an organization and guides the behaviour of its members. It is also known as “corporate culture”, and has a major impact on the performance of organizations and specially on the quality of work life experienced by the employees

at all levels of the organizational hierarchy. The corporate culture “consists of the norms, values and unwritten rules of conduct of an organization as well as management styles, priorities, beliefs and interpersonal behaviours that prevail. Together they create a climate that influences how well people communicate, plan and make decisions. Strong corporate values let people know what is expected of them. There are clear guidelines as to how employees are to behave generally within the organization and their expected code of conduct outside the organization. Also, if the employees understand the basic philosophy of the organization, then they are more likely to make decisions that will support these standards set by the organization and reinforce corporate values.

Global organizing requires a good understanding of the cultural differences and proper management of organizational cultures in different units of the organization. Although international business, to some degree, has existed for centuries, the second half of the last century was most influential in bringing the world closer to itself. The world, since 1950s has entered an era of unprecedented global economic activity, including worldwide production, distribution and global strategic alliances. More recently, in the last decade of the last century, India and China have opened up for entry of multinational companies. Some other closed markets under communism and social economies, such as one time Soviet Union and Eastern Europe have joined the international economic arena. Some multinational companies such as IBM, GE, BP and Siemens do business in more than 50 countries. According to Mitroft, “For all practical purposes all business today is global. Firms, industries and whole societies that clearly understand the new rules of doing business in a world economy will prosper; those that do not will perish.”

According to Adler and Bartholomew, some of the skills and approaches required of global managers are as follows:

- **Global perspective:** A global manager should broaden his focus from one or two countries to a global business perspective.
- **Cultural responsiveness:** He should become familiar, understand and respect the diversity and variety of cultures in different countries. He should also learn the dynamics of multinational interaction and situations.
- **Cultural adaptability:** In addition to cultural responsiveness, a global manager should be flexible enough to adapt to the culture of the people of the host country and be able to live and work with and among them. He should indulge in cross-cultural communication on a day-to-day basis, whether he is in the home country or the host country.
- **Acquired broad foreign experience:** He should be exposed to a variety of experiences by serving in different countries, and this will expand his horizons of thinking and interaction.

Understanding Cultural Differences

Accordingly, an international manager is trained to be culturally sensitive. Cultural sensitivity implies that the individual has become sufficiently aware of these cultural

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differences to function effectively without becoming openly judgmental or taking sides with one group or the other.

People behave according to their values, beliefs and attitudes. From organizational behaviour point of view, global managers must understand and appreciate these values, beliefs and attitudes of the people of the host countries, in order to achieve success. Values are basic assumptions about how things should be in a given society. They are collective convictions regarding good or bad, important or trivial, ethical or non-ethical and so on. Values are ingrained in the social fabric and are difficult, if not impossible to change. Hindus do not eat beef because cow is considered holy. Muslims do not eat pork because it is considered unclean. Sikhs do not smoke because it is considered anti-social. These are values that have existed for centuries. In most Islamic countries, women are expected to cover themselves from head to toe. In Saudi Arabia, women are not allowed to drive a car. Even where they are allowed to work, it is with the permission of their husbands and the husbands are interviewed for jobs for their wives.

Beliefs are conscious assertions about what is right or wrong, good or bad or the way of doing things. Even within a given society or religion, there may be different beliefs. Hindus, for example, believe in different deities, even though all of them belong to the same religion. Among them, some believe in eating meat, others do not. McDonalds restaurants do not sell hamburgers in India. Brahmins are strictly vegetarian. Knowledge about beliefs of natives in a given country helps organizations in avoiding some costly mistakes.

Attitudes define proper behavior of individuals and these are also generally formed within the context of social values and group beliefs. Attitudes are important in understanding the psychology of individual relationships. An influential person with a bad attitude can create problems for the organization. Collective attitude of a government, for example, towards foreign investment can encourage or discourage the extent of foreign direct investment (FDI).

Check Your Progress

4. What are informal organizations?
5. How are responsibility and authority tied together?
6. What characteristics are stressed in a bureaucracy?
7. How did the Hawthorne experiments show organization as a social process?

5.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Social entities as a word is a derivative of society, basically means gathering of people as against plants, machines, buildings, even though plants, machines and buildings are necessary contributors to the existence of the organization.

2. Synergy occurs when individuals or separate units work together to produce a whole greater than the sum of the parts.
3. The work flow or the chain of command in an organization which follows the direction of top to bottom is known as the scalar chain.
4. The informal organization, similar to informal groups, are organizations which come into existence due to social interactions and interpersonal relationships and exists outside the formal authority system without any set rigid rules.
5. Responsibility and authority are tied together as responsibility is really the accountability of authority. Authority without responsibility is a dangerous element.
6. The importance of routine, objectivity, uniformity and consistency are stressed under bureaucracy.
7. The Hawthorne experiments brought about the conclusions that the business organization also includes social and psychological factors and thereby concluded that organization is a social process where feelings, sentiments and attitudes were given due importance.

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5.6 SUMMARY

- The word organization is used and understood widely in our daily lives. It has been defined in a number of ways by psychologists, sociologists, management theorists as well as practitioners.
- Organizing is the second major function of management. If planning involves the determination and achievement of objectives, then organizing is the process of selecting and structuring the means by which those objectives are to be achieved. The organizing process deals with how the work is to be divided and how coordination of different aspects is to be achieved and so on. We are truly a society of organizations.
- The principles of organizing: Principle of Functional Definition, Principle of Supervision, Principle of Specialization, Principle of Scalar chain, and Principle of Unity of command.
- Organizing Functions of Management: Recognition and identification of tasks, Departmentation of activities, Authority and Delegation and Coordination.
- Organizations can be of many types but a broad classification of organizations on the basis of their functioning includes the categories of a formal organization and an informal organization.
- A formal organization typically consists of a classical mechanistic hierarchical structure. In such a type of structure, the position, responsibility, authority, accountability and the lines of command are clearly defined and established. It is a system of well-defined jobs with a prescribed pattern of communication, coordination and delegation of authority.

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- The informal organization, similar to informal groups, on the other hand, comes into existence due to social interactions and interpersonal relationships and exists outside the formal authority system without any set rigid rules. Though unrecognized, it exists in the shadow of formal structure as a network of personal and social relations, which must be understood and respected by the management.
- The three important steps involved in organizational structure and design are discussed as follows: Determination, identification and enumeration of activities, Grouping and assigning of activities, and Delegation of authority.
- Based on the approaches of organization, some authors have developed theories of organization. They are known as classical theories, neoclassical theories and modern organizational theories.
- There are some established guidelines that are common to all organizations: The lines of authority should be clearly stated and should run from the top to the bottom of the organization, The principle of specialization should be applied wherever possible, The number of levels of authority should be as few as possible, The line function and the staff function should be kept separate, The span of control should be reasonable and well established, etc.
- The organizational culture is a system of shared beliefs and attitudes that develop within an organization and guides the behaviour of its members. It is also known as “corporate culture”, and has a major impact on the performance of organizations and specially on the quality of work life experienced by the employees at all levels of the organizational hierarchy.
- For global organizing, an international manager is trained to be culturally sensitive. Cultural sensitivity implies that the individual has become sufficiently aware of these cultural differences to function effectively without becoming openly judgmental or taking sides with one group or the other.

5.7 KEY WORDS

- **Organization:** It is a system of consciously coordinated activities or efforts of two or more persons.
- **System:** It is a set of interconnected and interrelated elements of management activity. It is an arrangement of components of activities performed for achieving certain objectives.
- **Culture:** It is a pattern of basic assumptions invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration worked well enough to be considered valuable and therefore, to be taught to new members as a correct way to perceive, think and feel, in relation to those problems.

- **Organizational culture:** It refers to the shared attitude and perceptions in an organization that are based on a set of fundamental norms and values and help members understand the organization.

5.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. Explain the importance of organizing.
2. What are the principles of organizing?
3. Define organizational culture.
4. Mention the functions of organizational culture.
5. Differentiate between formal and informal organizations.

Long Answer Questions

1. Discuss the guidelines of effective organization.
2. Write a note on the different theories of organization.
3. Explain the modern theories of management.
4. Examine the concept of organizational culture and global organizing.

5.9 FURTHER READINGS

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UNIT 6 ORGANIZATIONAL STRUCTURE

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Structure

- 6.0 Introduction
- 6.1 Objectives
- 6.2 Organizational Structure
- 6.3 Line and Staff Functions
- 6.4 Formal and Informal Groups
- 6.5 Departmentalization
- 6.6 Authority and Responsibility
 - 6.6.1 Delegation of Authority
- 6.7 Centralization and Decentralization
- 6.8 Committees
- 6.9 Informal Organization
- 6.10 Answers to Check Your Progress Questions
- 6.11 Summary
- 6.12 Key Words
- 6.13 Self Assessment Questions and Exercises
- 6.14 Further Readings

6.0 INTRODUCTION

For many years, the concept of the ‘optimum organization structure’ has been the focus of attention in order to standardize a design that be uniformly and universally applicable to all types of organizations. However, since organizations have different characters and needs, it would not be possible to identify an ideal structure that would fulfil these diversified needs. Accordingly, each organizational structure must suit the situation and be optimally useful in meeting the organizational objectives. Good organizational design is a function of a number of factors including the environment, technology, size of the company and the philosophy of the central management. In this unit, we will study the different organizational structures, the concept of formal and informal groups, departmentalization, span of control, staff and line functions, authority and responsibility, centralization and decentralization, delegation of authority, committees and the features of informal organization.

6.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the concept of organizational structure
- Describe the departmentalization of organization
- Examine the concept of span of control

- Explain the line and staff functions in an organization
- Recall the idea of delegation of authority
- Discuss committees and their functions

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6.2 ORGANIZATIONAL STRUCTURE

Organizational structure involves arrangement of activities and assignment of personnel to these activities in order to achieve the organizational goals in an efficient manner. It is a way by which various parts of an organization are tied together in a coordinated manner and it illustrates the various relationships among various levels of hierarchy within the organization as well as horizontal relationships among various functions of the organizational operations. A well-planned organizational structure results in better utilisation of resources. In general, “organizational structure” refers to the way individuals and groups are arranged with respect to the tasks they perform, and “organizational design” refers to the process of coordinating these structural elements in the most effective manner.

Determinants of Organizational Structure

Since organizations have different characteristics and requirements, it would not be possible to identify an ideal organizational structure that would fulfill all these diversified needs. Accordingly, each organizational structure must suit the situation and be optimally useful in meeting the organizational objectives. Good organizational structure is a function of a number of factors including the environment, technology, size of the organization and its life cycle. These four factors would determine the philosophy and strategy of central management, which forms the foundation for the organizational structure.

6.3 LINE AND STAFF FUNCTIONS

The **line structure** is the simplest form of organization and is most common among small companies. The authority is embedded in the hierarchical structure and it flows in a direct line from the top of the managerial hierarchy down to different levels of managers and subordinates and further down to the operative level of workers. It clearly identifies authority, responsibility and accountability at each level. These relationships in the hierarchy connect the position and tasks at each level with those above and below it. There is clear unity of command so that the person at each level is reasonably independent of any other person at the same level and is responsible only to the person above him. All line personnel are directly involved in achieving the objectives of the company. A typical line structure is illustrated as follows:

Because of the small size of the company the line structure is simple and the authority and responsibility are clear-cut, easily assignable and traceable. It is

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easy to develop a sense of belonging to the organization, communication is fast and easy, and feedback from the employees can be acted upon faster. The discipline among employees can be maintained easily and effective control can be easily exercised. If the president of the company and other superiors are benevolent in nature, then the employees tend to consider the organization as a family and tend to be closer to each other and respect each other, which is highly beneficial to the organization.

On the other hand, if it is a rigid form of the organization and there is a tendency for the line authority to become dictatorial, it may be resented by the employees. Furthermore, there is no provision for specialists and specialisation which is essential for growth and optimisation and hence for growing companies, the pure line type of structure becomes ineffective.

Line and Staff Structure

In this type of organization, the functional specialists are added to the line, thus giving the line advantages of specialists. This type of organizational structure is most common in our business economy and especially among large enterprises. Staff is basically advisory in nature and usually does not possess and command authority over line managers. There are two types of staff:

- 1. General staff:** This group has a general background which is usually similar to the background of executives, and serves as assistants to top management in one capacity or another. They are not specialists and generally have no direct authority or responsibility of their own. They may be known as special assistants, assistant managers or in a college setting as deputy chairpersons.
- 2. Special Staff:** Unlike the general staff which generally assists only one line executive, the specialised staff provides expert advice and service to all on a company-wide basis. This group has a specialised background in some functional area and it could serve in any of the following capacities:
 - A. Advisory capacity:** The primary purpose of this group is to render specialised advice and assistance to management when needed. Some typical areas covered by advisory staff are legal, economic and public relations.
 - B. Service capacity:** This group provides a service that is useful to the organization as a whole and not to any specific division or function. An example would be the personnel department serving the organization by procuring the needed personnel for all departments. Other areas of service include research and development, purchasing, statistical analysis, insurance problems and so on.
 - C. Control capacity:** This group includes quality control staff who may have the authority to control the quality and enforce standards.

The line and staff type of organization uses the expertise of specialists without diluting the unity of command. With the advice of these specialists, the line managers

also become more scientific and tend to develop a sense of objective analysis of business problems.

6.4 FORMAL AND INFORMAL GROUPS

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A group is called formal when it is formed with the express intent to accomplish an organizational goal or objective. It is created through a formal authority and for a specifically designated purpose.

A formal group can be a command group, also known as a functional group. This is relatively permanent and is composed of managers and their subordinates. The group meets regularly to discuss general and specific ideas to improve product or service. In business organizations, most employees are members of command groups and that is how work is done. Formal work groups usually have a single assigned leader, from the chain of command, who could be the manager or supervisor, even as their structures and style of functioning vary. For instance, in a production related work group, members may have to work in a tightly linked manner, in contrast to a sales related group, where group members work in a relatively less interlinked way. In both cases, there is a single supervisor, namely the production manager and the sales manager.

Task forces and committees are other types of formal groups. Task forces are generally temporary in nature and are set up for special projects, for example, in formulating a new policy to deal with absenteeism. Committees are usually permanent; such as planning, finance or budget committee. These are an integral part of the organizational structure. Some committees are temporary, set up for a particular purpose and disbanded after the purpose has been served. An example is a committee set up for hiring an important executive position, such as vice-president for global sales, which is disbanded after the hiring process is completed.

Informal Groups

Informal groups are formed spontaneously by members of the group on their own initiative. This is in contrast to formal groups that are established by the organization to accomplish specific objectives. Informal groups emerge more organically in response to common interest and goals of organizational members. Formal groups make recommendations to the organization for decision-making purposes or even make decisions that will be implemented. Informal groups do not have that role or responsibility but can make important contributions in terms of input to management or in making suggestions or recommendations.

Informal groups are formed when members perceive strong common goals and interests and see the group as being of help and benefit. Common interests could be driven by self-preservation, work-assistance, building a power-base or simply for social interaction. These groups exist outside the formal organizational structure and do not need to heed the rigid organizational rules. Though unrecognized officially, these groups exist in the shadow of the formal structure as a network of

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professional, social or personal relations which must be understood and respected by the management. Some informal groups, such as unions, become powerful; for instance, if one employee who is a union member is fired in an unfair manner, all the workers could go on strike in support of that member of the group.

Informal groups could be highly cohesive, with strong bonds between members and a high sense of belonging and togetherness. This cohesion could have a powerful impact on productivity and job satisfaction, since employees do influence each other's motivations and affect each other's productivity, for example, by helping new employees or asking experienced ones for guidance and help. Thus, recommendations and decisions of informal groups regarding operational or personnel problems are often taken quite seriously by management.

Informal groups need not be without structure, although such structure could be different than prescribed structures for formal groups. They may parallel formal structures in having leaders, group goals, social and group roles and working patterns. They may have unwritten rules or codes of conduct that members are expected to adhere to. In such groups, members are expected to trust and help each other. For example, in many departments, administrative assistants wield more power in certain ways than the nominal head. Thus, an employee in the department, who has an excellent rapport with the assistant and forms an informal group in that manner, may be able to accomplish even more than what he could with only the help from his superiors.

Since informal groups have an important role in the process of managerial decision-making, especially at the operational level and sometimes at the policy formulation level as well, it is important to study the various aspects of informal groups, including behavioral ones.

6.5 DEPARTMENTALIZATION

Departmentation is the process of grouping related work activities into manageable work units with some logical arrangement. The purpose of departmentation is to make a more efficient and effective use of organizational resources. These work units may be related on the basis of work functions, product customer, geography, technique or time.

As the organizations grow, supervising employees becomes more and more difficult for one manager or supervisor. Consequently, new managerial positions are created to supervise the work of others. The jobs are grouped according to some logical plan and the logic embodied in such a plan forms the basis of departmentation. Departmentation is practised not only for division of labour but also to improve control and communications.

Departmentation fits into two general categories, namely, functional and divisional and the divisional structures are based on groupings of different activities.

The Functional Structure

The functional design is also known as a U-form organization (U stands for unity) and it groups positions into departments according to their main functional areas. Some of the main functions of most organizations are those of production, marketing, finance, human resources, legal, research and development. The type and the number of functions would depend upon the type of organization. For example, some functions in a service organization will be different from these in a manufacturing organization. The chain of command in each function leads to a functional head who in turn reports to the top manager.

Divisional Structure

An alternative to the functional structure is the divisional structure which allows an organization to coordinate intergroup relationships more effectively. It involves grouping of people or activities with similar characteristics into a single department or unit.

Also known as self-contained structures, organizations operate as if they were small organizations under a large organizational umbrella. The decisions are generally decentralized so that the departments guide their own activities. This facilitates communications, coordination and control, thus contributing to the organizational success. Also, because the units are independent and semi-autonomous, it provides satisfaction to the managers and this in turn improves efficiency and effectiveness.

There are basically three major forms of divisional structures that companies can choose from. These are: product, customer and geography.

Product Structure. In this type of structure, the units are formed according to the type of product and is more useful in multi-line corporations where product expansion and diversification and manufacturing and marketing characteristics of the production are of primary concern. For example, Pepsico owns and controls three product units, namely, Kentucky Fried Chicken (KFC), Taco Bell and Pepsi. Each of these products has special production and marketing demands. Similarly, General Motors has six divisions which are autonomous and decentralized. These are: Buick, Pontiac, Oldsmobile, Cadillac, Chevrolet and GMC trucks. While the general policies are decided upon by the top management within the philosophical guidelines of the organization, each division is autonomous and strives to improve and expand its own product line and each divisional general manager is responsible for its costs, profits, failures and successes.

In this type of organizational structure, the responsibility as well as accountability is traceable thus making the division heads sensitive to product improvements in response to changing customer tastes. Furthermore, product structure facilitates the measurement of managerial as well as operative results and the contribution of each product line to the total profit of the organization can be evaluated.

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The major disadvantage of this type of structure is that it promotes fierce internal competition which may or may not be healthy. Furthermore, there may be lack of cooperation among different divisions and this tendency can be detrimental to the broader goals of the organization.

Customer Structure. This type of structure is used by those organizations which deal differently with different types of customers. Thus the customers are the key to the way the activities are grouped. Many banks have priority service for customers who deposit and maintain a prescribed amount of money with the bank for a given period of time. Similarly, business customers get better attention in the banks than other. First class passengers get better service from the airlines than economy class passengers. An organization may be divided into such areas as industrial product buyers and consumer product buyers.

Geographic Structure. If an organization serves different geographical areas, the divisional structure may be based upon geographical basis. Such divisional structures are specially useful for large scale enterprises which are geographically spread out such as banks, insurance companies, chain department stores. Such a structure groups the activities of the organization along geographic lines. For example, there may be separate vice-presidents of marketing who are responsible for promotion of the product in Eastern Region, in North-Western Region, in Southern Region and so on. In the case of multinational organizations, the geographic division may be European Division, Middle-East Division, Far-East Division and so on, with central control office in the home country such as United States.

In these cases, the local population is served by the divisional personnel while the general policies are formulated at the headquarters. The local management is in close contact with the people in the area taking advantage of such local factors as customs, cultures, styles and social preferences. The main problem may be some difficulty in communication with the head office which can delay important decisions and create problems with coordination of interrelated activities. This problem is specially acute for multinational companies with operations in such underdeveloped countries where telecommunication networks are not sufficiently developed.

Organizational Chart

This company uses each of the more common basis for departmentalization. These are function, product, customers and geography.

Check Your Progress

1. What are the factors of which determine a good organizational structure?
2. List the kinds of special staff in an organization.
3. Which form of departmentalization is known as a U-form organization?

6.6 AUTHORITY AND RESPONSIBILITY

Authority is considered as the root of an organizational structure. It integrates different units of an organization. In the absence of authority even a manager ceases to be a manager. It is impossible to visualise an organization if nobody is given the minimum authority required to get the assigned tasks completed.

Characteristics of Authority

The main characteristics of authority are as follows:

1. **Legality and legitimacy:** The authority prescribed to a position is legal as well as legitimate. It is considered in a formal sense and is maintained by certain standards of law and dependability.
2. **Predefined limits:** In an organization, the limits and extent to which an authority is to be utilised is defined in advance and the position holder is expected to follow the rules, regulations and the norms of the organization.
3. **Relationship:** An authority is a kind of relationship between a superior and his subordinate. The superior gives the guidelines to the subordinate with the expectation of a sincere acceptance by the subordinate and a successful execution thereby.
4. **Attainment of organizational goals:** Authority is basically given to subordinates to influence their behaviour so as to do the right things at the right time, and thereby attain the goals of the organization.
5. **Basis of managerial job:** In the absence of authority, it would be more difficult for a manager to set out the guidelines for subordinates and to get things done from them. Lines of authority work as a linkage for the organizational hierarchy for the attainment of common objectives.
6. **Right of decision making:** Before giving authority, a manager decides the area of work that is to be done by the subordinates.
7. **Objectivity versus subjectivity:** Authority is an objective thing but it is always taken in a subjective form, thereby depending on the personality of both the manager and the subordinate who are supposed to exercise them.
8. **Delegation:** Authority can be delegated by a superior to his subordinate who can further transfer a part of the authority to their subordinates.

Sources of Authority

Authority flows both from top to bottom and also from bottom to top.

1. **Formal Authority Theory:** According to this theory, authority originates at the top of an organization and flows downward through the process of delegation. The Board of Directors stand at the top of the organizational hierarchy. Each and every member of board can delegate either full or a

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part of their authority to the Chief Executives who in turn, can delegate it to Departmental Heads and so on. But the extent of authority is predetermined by the immediate superior who is delegating it, and the person to whom it is delegated is not allowed to exceed that limit. Therefore it is clear that authority always lies at the top and moves down the scalar chain depending on the various positions. It is therefore traditional and legitimate. It is formal because it creates a relationship between subordinates and their immediate superiors.

- 2. Acceptance Authority Theory:** Formal Authority Theory is of no significance unless it is willingly accepted by the subordinates. They will accept only if they think that the advantages of acceptance are greater than the disadvantages of non-acceptance. The decision regarding whether the order has the authority depends upon the individual to whom it is addressed and not on the individual who issues it. The subordinate will accept the authority if he gets recognition, appraisal, rewards and promotion for doing so. According to Chester Barnard, authority flows upward and therefore it should be called Bottom Up authority. This theory has a disadvantage that it cannot be carried out in case it is not willingly accepted by the subordinates.
- 3. Competence Theory:** This theory says that it is not necessary that each and every individual should have the formal authority, meaning thereby that personal qualities or technical competence of an individual also flow as an order wherever necessary. Henry Fayol has called it “authority of personality”. A manager utilises authority by virtue of his expert knowledge, intelligence and skill. Both a staff specialist and a subordinate possess and accept this authority due to their expert knowledge.

All the three theories have their importance and are utilised depending on the norms of the organization. Formal authority is common to organizational structure while the acceptance authority theory and competence theory form part of leadership. Therefore, it can be said that authority flows from all directions.

6.6.1 Delegation of Authority

Delegation is the downward transfer of formal authority from one person to another. Superiors delegate authority to subordinates to facilitate the accomplishment of the assigned work. Delegation of authority becomes necessary as the organization grows. The chief executive cannot perform all the tasks of the organization himself so that he must share some of his duties with his immediate subordinates. This process continues until all activities are assigned to persons who are made responsible for performing them.

Principles for Delegation

Delegation of authority should be effective and result oriented. Some of the principles that serve as guidelines for effective delegation of authority are described as follows:

- 1. Functional clarity:** The functions to be performed, the methods of operations and the results expected must be clearly defined. The authority

delegated must be adequate to ensure that these functions are well performed.

2. **Matching authority with responsibility:** Authority and responsibility are highly interconnected. For example, if a marketing manager is given the responsibility of increasing sales, he must have the authority over advertising budgets and on hiring more capable sales people. Authority should be adequate and should not only match the duties to be performed but also the personal capabilities of the subordinate.
3. **Unity of command:** A subordinate should be responsible to only one superior who is delegating the authority to the subordinate in the first place. In this manner, the responsibility for mistakes or accomplishments is traceable and the chances of conflict or confusion are minimal.
4. **Principle of communication:** A misunderstood responsibility can be very dangerous. A general authority can be easily misused. Accordingly, both the responsibility and authority must be clearly specified, openly communicated and properly understood. The lines of communication must be continuously kept open for issuing directions as well as for receiving feedback.
5. **Principle of management by exception:** Management should delegate the authority and responsibility for routine operations and decision making to subordinates, but must retain such tasks for themselves for which they alone are uniquely qualified. On the other hand, the subordinates must make decisions and take actions wherever they can and should only refer matters of such nature to their superiors, which are unique, and outside their domain of authority. This practice saves valuable time of top management that can be utilised for more important policy matters. Also, by trying to solve most of the problems by themselves, the subordinates prepare themselves for higher challenges and responsibilities.

6.6.2 Responsibility

Responsibility has been defined in various ways. Mostly it is considered to be the 'duty' to perform certain assigned tasks in a satisfactory manner. It is the obligation of an individual to perform certain activities which are assigned to him, the source of responsibility lies within the individual. If he accepts a job or 'responsibility', he should see that the job is completed to the best of his ability. It is governed by contractual as well as moral obligations. Contractual obligations ensure that the job is done and morality ensures that it is done honestly and efficiently.

Since responsibility is an obligation that a person accepts, it cannot be delegated to the subordinate even if the activity is performed by the subordinate. Responsibility cannot be delegated though authority can be/is delegated.

Responsibility in one sense is accountability for authority. An authority misused has a negative effect on operations. It must be used in a responsible manner. The

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responsibility factors weigh very heavily in performance evaluation of individuals, especially managers. Samuel C. Certo has listed four areas which can be analysed to determine the degree of responsibility a manager possesses. These are:

1. *Behaviour with subordinates.* A responsible manager knows how to handle his subordinates with respect and sternness. He takes charge of the work group, guides and assists them, encourages them and rewards them and stays closely to the problems and activities.
2. *Attitude towards upper management.* The manager has a very sensitive task of keeping both the superiors and the subordinates happy even when their goals are in conflict with each other. He must ensure that the central management's expectations are met and that the organizational goals are achieved and must accept criticism and responsibility for mistakes.
3. *Behaviour with other groups.* Responsible managers are in constant touch with the managers of other departments within the division and build a rapport with them. They make sure that all activities of different units are well coordinated and that there is no gap between their areas and the areas of others.
4. *Personal attitudes and values.* A responsible manager has a positive outlook towards life. He is mature and well balance and exercises a moral and ethical code of conduct. He is a mentor and protector of his subordinates' rights and he puts the organizational goals ahead of his own. He is dedicated and committed and works for self-fulfilment rather than strictly materialistic rewards.

These qualities in a manager are highly valued by the top management and these traits are highly necessary to serve as role models for subordinates.

Check Your Progress

4. What is the formal authority theory?
5. List the principles of delegation.
6. What is legal authority?

6.7 CENTRALIZATION AND DECENTRALIZATION

Centralization means that the authority for most decisions is concentrated at the top of the managerial hierarchy and decentralization requires such authority to be dispersed by extension and delegation through all levels of management. There are advantages as well as disadvantages of both types of structures and the organizational structure determines the degree of centralization or decentralization. A pure form of centralization is not practical, except in small companies, and pure form of decentralization almost never exists. As organizations grow bigger by expansion, mergers or acquisitions, decentralization becomes both necessary as

well as practical. If an automobile manufacturing company acquires a company which makes refrigerators, then decentralization would be the natural outcome since policies and decisions in these two areas may not be similar. The important question is not whether there should be decentralization, but decentralization to what degree? In addition to decentralization being logistically superior in most situations, it is also advocated by many behavioural scientists as being more democratic. Secondly, if all decisions are made at the top, then the lower organizational members end up only as workers and not as innovators or thinkers, and it inhibits the growth and development of personnel. On the other hand, decentralization tends to create a climate whereby taking additional responsibilities and challenges enable, the organizational members to receive executive training for growth and development.

Advantages of Centralization

The following advantages are claimed for centralization:

1. It is a means for adopting and enforcing uniform policies and it achieves coordination and conformity since all decisions are made at one central point.
2. The quality of the decisions is expected to be higher since the top management who make such decisions are much more experienced and knowledgeable about organizational problems and situations than the subordinates who are still “going through the mill”. Also, decisions made by subordinates in decentralization may not be optimal for the entire organization since the subordinates lack the wider perspective of the needs and issues of the organization as a whole and tend to concentrate on the optimality of their own units.
3. Centralization makes it easier to achieve a balance among the activities of different departments and functional areas. If the departments of production, marketing and finance, each went its own way, then each would try to make decisions that would be beneficial to its own department, even at the cost of other departments. This would be harmful to the organization as a whole. The centralised system looks at these different sub-units as parts of the whole unit and relates these sub-units to each other so as to maximise the total benefits.
4. Centralization results in the optimal utilisation of human and physical resources. One of the disadvantages of divisionalisation and decentralization is the duplication of efforts and resources for similar activities being conducted by different sectors of the organization. For example, General Motors has five divisions with each division having its own executives and separate research facilities which would be combined under centralization.
5. The Central management is better equipped to handle any emergencies that might affect all the units of the organization. This emergency may be related

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to policy matters or operational matters. This may be a breakthrough in technology or a sudden change in the tactics of competitors. For example, if one airline suddenly and drastically reduces its airfares, other airlines must follow immediately to keep their market share. This can only be effectively done through central management.

6. Centralization provides for the services of staff specialists in those areas where they are needed. Different units of the same organization independently would not have the resources to provide for specialised services.
7. Centralization can be highly motivating and morale boosting for executives. It is better to be an important executive of the whole organization than only of one unit. It provides prestige and power which strengthens the self-confidence which in turn would be useful in decision making at time of a crisis.

Advantages of Decentralization

The following advantages are claimed for decentralization:

1. It relieves the top executive from excessive workload, since in decentralization, most of the routine managerial responsibilities are delegated to subordinates. This gives the central management more time to concentrate on planning, coordination, policymaking, control and so on.
2. It provides foundations for development of future executives. The more responsibility is given to subordinates, the more experience they will gain, thus preparing them for higher positions. This makes promotions from within more desirable because these newly promoted managers would be much more familiar with the organizational problems and aspects.
3. Decentralization is highly motivational for subordinates because it gives them the freedom to act and freedom to make decisions. This gives them a feeling of status and recognition and this results in a feeling of dedication, commitment and belonging. The behavioural scientists argue that such commitment leads to higher productivity.
4. Decentralization leads to prompt actions and quick decisions, since the matters do not have to be referred to the higher-ups and spending time for their guidance, approvals or decisions. Also, the supervisors are much closer to the points of operations and are in a position to know the problems more accurately and are more likely to make the right decisions.
5. Decentralization results in effective control over operations and processes. In decentralization, the responsibility is much more specific and any mistakes are easily traceable. This makes the accountability much more clear-cut and hence controls much more effective. This would make the managers of the units much more conscious of their duties resulting in higher productivity. It can be seen that decentralization is advantageous in most situations and

unavoidable in large diversified organizations. To make decentralization more effective, its concept must be clearly understood that it does not mean total autonomy but only operational independence and the unit managers are responsible to the central management for their actions and results. Perhaps, the best form of decentralization would be centralised control with decentralized responsibilities.

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6.8 COMMITTEES

While many organizations have been successful due to only one person at the top making decisions, committees and task forces have become more and more necessary as the organization grows into complexity. Because of collective information and analysis, committees are more likely to come up with solutions to complex problems. For those reasons, most of the major companies have formal committees in one form or another.

Advantages of Committees

1. *Pooling of opinions:* Since members bring in different backgrounds, values, viewpoints and abilities, these wide-ranging abilities result in greater knowledge base, which results in better quality decisions. Additionally, group deliberations generally ensure a thorough consideration of problems from all angles and alternative points of view before arriving at a decision, which may not be possible if the problem is looked at by a single executive.
2. *Improved cooperation.* The members of the committee usually get to know each other well and thus see each other's point of view with respect. They are willing to cooperate and coordinate specially when they become aware of their role and how their decisions are going to affect the entire organization.
3. *Motivation.* When the committee consists of managers as well as subordinates, it gives the subordinates some degree of recognition and importance. They rightfully feel that they are an integral part of the decision making process which boosts their morale, and motivates them to do better.
4. *Representation.* Since the committee membership may have different interests which may be opposing sometimes, it gives a critical viewpoint and a balanced outcome of those different representations. However, even though the committees should be highly representative of all interests, capability of the members should take precedence over the representation.
5. *Dispersion of power.* While autocratic authority makes decision making and implementation faster and easier, it may lead to misuse of power and wrong decisions. However, by spreading authority and responsibility over all committee members: this problem can be eliminated.
6. *Executive training.* The committees provide excellent training grounds for young executives. Here, they learn the values of interaction, human relations

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and group dynamics. They get exposed to various viewpoints and tend to think in liberal manner and how collective decisions are made. Such type of experience enables them to take an integrative view of solving various organizational problems.

7. *Continuity.* Most committees do not replace all of its members at the same time, so that new members join to replace some old members, the others remain and thus the continuity of operations is maintained. The U.S. Senate works on the same basis so that every two years there is an election for one-third of the total Senate. According to Newman, "There are always some members of the group who know the reasons for previous, actions and this tends to promote a consistency and continuity of thinking that is difficult to achieve when an executive who has been making decisions by himself has to be replaced."
8. *Communication.* A committee can be an excellent forum for management and workers to have simultaneous communication and discuss matters of common interest in an atmosphere of goodwill and understanding and reach some conclusions. These conclusions can then be communicated to all members throughout the entire organization via the committee members. This may be a preferred and trusted method for transmitting correct, authentic, and prompt information to all.
9. *Better chance of recommendation to be accepted.* A committee recommendation is much more likely to be accepted than an individual recommendation. Also, the decisions taken on the basis of these recommendations would be easily accepted by membership for implementation.

Disadvantages of Committees

Some of the major disadvantages of groups and committees are:

1. *Time and cost.* Constitution of a committee is a costly affair in terms of money and time. Since each member is entitled to take part in discussions, it can be very time consuming. Each member is involved in cross communication trying to convince others as to the usefulness of his own point of view, thus taking a lot of total time. Also, since it is prestigious to be a member of a committee, there is always pressure to add more members to the committee, thus adding to this problem. In addition, in the course of research for material, there may be committee related travel and staff expenses for preparation and typing etc., of material. These could be very costly. Accordingly, the usefulness of committee decisions' must be measured against the costs involved. Accordingly, if a problem can be solved by a single executive or a few staff members, the committees should not be appointed.
2. *Compromise.* Usually, there is tendency to present unanimous decisions and hence a majority viewpoint is taken as a representative even when the

minority viewpoint is valid. This may result in premature agreements and decisions of mediocre quality. The minority may be unwilling to pursue their viewpoint for fear that they will stand out. They may also be willing to compromise for less than optimal solution because if these solutions turn out to be wrong, they will not be traceable to individuals but the whole committee will get the blame. This shows that a committee decision is not necessarily the optimal one, but merely an acceptable one.

3. *Personal prejudices.* Sometimes, winning an argument or getting back at somebody for personal reasons may give the problem a secondary priority, thus diluting the strength of the solution.
4. *Logrolling.* This term is coined for wheeling and dealing for political interests. These political pressures may come from the top management, who want a particular point of view domination in the committees. A case in point is the promotion and granting of tenure process in colleges. If the President of the college does not want a particular person to be promoted, he will put pressure on committees to do so. In that respect, logrolling not really a democratic process, but more of a democratic dictatorship.
5. *Strain on interpersonal relations.* As in committee meetings, everybody wants to please everybody else and any displeasure can strain working relations outside the committee into personal life. For example, in the college committee meetings for promotions where voting is the contributory factor, anybody voting against will not have friendly relations with the person, who is being considered for promotion, if this voting leaks out. That is” a very difficult and sensitive area and a lot of training in interpersonal competence is needed.
6. *Lack of effectiveness.* Certain issues are better accomplished by individuals rather than committees. The committees are very useful in handling grievances and interdepartmental problems, but they are not so effective in formulating policies where individual initiative and creativity is involved.

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6.9 INFORMAL ORGANIZATION

We have learnt a little bit about formal and informal organizations in Unit 5. Now let's discuss informal organizations. A formal organization typically consists of a classical mechanistic hierarchical structure. In such a type of structure, the position, responsibility, authority, accountability and the lines of command are clearly defined and established. It is a system of well-defined jobs with a prescribed pattern of communication, coordination and delegation of authority. We have also studied the major features of a formal organization.

Informal organizations come into existence due to social interactions and interpersonal relationships and exists outside the formal authority system, without any set rigid rules. Though unrecognized, it exists in the shadow of formal structure

as a network of personal and social relations, which must be understood and respected by the management.

Some of the concepts of informal organization are:

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- (a) *Group norms.* Parallel to performance standards established by the formal organizational structure, the informal groups have their own norms as rules of conduct and standard of behaviour which is expected of all members. These norms may be established in consultation with the management so that the group goals do not conflict with the organizational goals. For example, if one member of the group is unproductive or talks ill about the organization, he may be sanctioned by the other members either by ridicule or by the “silent treatment.” Similarly if one member is overly productive in order to please the management, thus making the other members look bad, he could be similarly sanctioned to bring him back in line. A study conducted by P.C. de la Porte showed that the group norms that are favourable to the organization are: organization pride, team work, honesty, security, planning, customer relations etc. The norms about profitability and supervision were unfavourable to the organization.
- (b) *Group roles.* There is an unwritten assignment within the group as to which task will be done by whom and under what conditions. Some job roles are assigned by the management by matching the job description with the person’s qualifications, while some other roles develop within the group. Some members may informally, be technical advisors to others as to how to do the job better and others may act as arbitrator; in social problems or other differences that may arise among members.
- (c) *Group goals.* The goals of the informal group, whether it be profitability, which conflicts with the organizational goals or customer service, which is in accord, heavily influence productivity. It is necessary to integrate the group goals with the organizational goals for the purpose of improvement and success.
- (d) *Leadership.* The informal group leader emerges from the group, either because of his personal charisma or his social status or his technical expertise. He is not formally elected, but is accepted in the minds and hearts of the workers. These leaders influence the behaviour of others and remain leaders as long as they are sincere to the group interests.
- (e) *Group cohesiveness.* Cohesiveness refers to the degree and strength of interpersonal attraction among the members of the group. High degree of cohesion is highly motivating in achieving the group goals. Members help each other and support each other. The degree of cohesiveness depends upon the commonness of the perceived group goal, the size of the group and the ability of the group leader to facilitate cohesion. Group cohesion also has synergetic effects where together, they produce much more by the collective efforts than the sum product of the individual efforts.

The informal organization is a powerful instrument in all organizations and sometimes can mean the difference between success and failure. When the group members want to do a job, it is always done better than when they have to do it because of instructions from superiors.

Check Your Progress

7. Which type of organizational structure is good if the communication system provides for speedy and accurate transfer of information on which decisions are based?
8. Why is said that committees provide excellent training grounds for young executives?
9. What is leadership like in an informal organization?

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6.10 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Good organizational structure is a function of a number of factors including the environment, technology, size of the organization and its life cycle.
2. The special staff in an organization are divided into groups which serve in different categories like: Advisory capacity, Service capacity and Control capacity.
3. The functional design of departmentation is also known as a U-form organization (U stands for unity) and it groups positions into departments according to their main functional areas.
4. According to the formal authority theory, authority originates at the top of an organization and flows downward through the process of delegation.
5. The principles of delegation are: functional clarity; matching authority with responsibility; unity of command; principle of communication and principle of management by exception.
6. Legal authority is based upon the rank or the position of the person. This authority may be given by law or by social rules and regulations protected by law, for example, law has granted a policeman authority to arrest anyone who has committed a crime.
7. If the communication system provides for speedy and accurate transfer of information on which decisions are based then centralization could be more effective as the organizational structure.
8. The committees provide excellent training grounds for young executives because here they learn the values of interaction, human relations and group dynamics. They get exposed to various viewpoints and tend to think in liberal manner and how collective decisions are made. Such type of

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experience enables them to take an integrative view of solving various organizational problems.

9. The informal group leader emerges from the group, either because of his personal charisma or his social status or his technical expertise. He is not formally elected but is accepted in the minds and hearts of the workers. These leaders influence the behaviour of others and remain leaders as long as they are sincere to the group interests.

6.11 SUMMARY

- Organizational structure involves arrangement of activities and assignment of personnel to these activities in order to achieve the organizational goals in an efficient manner. It is a way by which various parts of an organization are tied together in a coordinated manner and it illustrates the various relationships among various levels of hierarchy within the organization as well as horizontal relationships among various functions of the organizational operations.
- Departmentation is the process of grouping related work activities into manageable work units with some logical arrangement. The purpose of departmentation is to make a more efficient and effective use of organizational resources. These work units may be related on the basis of work functions, product customer, geography, technique or time.
- Span of management is related to the number of subordinates a manager can effectively manage. The optimum number of subordinates that a manager can effectively supervise at a particular time may vary from manager to manager. Hence, span of control is a person-to-person concept.
- Authority is considered as the root of an organizational structure. It integrates different units of an organization. In the absence of authority even a manager ceases to be a manager. It is impossible to visualise an organization if nobody is given the minimum authority required to get the assigned tasks completed.
- Responsibility has been defined in various ways. Mostly it is considered to be the 'duty' to perform certain assigned tasks in a satisfactory manner. It is the obligation of an individual to perform certain activities which are assigned to him, the source of responsibility lies within the individual. If he accepts a job or 'responsibility', he should see that the job is completed to the best of his ability. It is governed by contractual as well as moral obligations. Contractual obligations ensure that the job is done and morality ensures that it is done honestly and efficiently.
- Centralization means that the authority for most decisions is concentrated at the top of the managerial hierarchy and decentralization requires such authority to be dispersed by extension and delegation through all levels of management.

- The informal organization, similar to informal groups comes into existence due to social interactions and interpersonal relationships and exists outside the formal authority system without any set rigid rules. Though unrecognized, it exists in the shadow of formal structure as a network of personal and social relations, which must be understood and respected by the management.

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6.12 KEY WORDS

- **Line structure:** The line structure is the simplest form of organization and is most common among small companies; the authority is embedded in the hierarchical structure and it flows in a direct line from the top of the managerial hierarchy down to different levels of managers and subordinates and further down to the operative level of workers. It clearly identifies authority, responsibility and accountability at each level.
- **Span of management:** Span of management is related to the number of subordinates a manager can effectively manage; the quality of supervision becomes poor and coordination becomes weak when large number of subordinates work under a single manager.
- **Line and staff structure:** In this type of organization, the functional specialists are added to the line, thus giving the line advantages of specialists; this type of organizational structure is most common in our business economy and especially among large enterprises. Staff is basically advisory in nature and usually does not possess and command authority over line managers.

6.13 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. Describe departmentation.
2. What is span of management?
3. Who form special staff in an organization?
4. Briefly discuss the advantages of committees in an organization.

Long Answer Questions

1. Write a detailed note on the line and staff functions in an organization.
2. What are the types of span of control? Discuss these in detail.
3. How can authority be delegated? Discuss the advantages and disadvantages of delegating authority.
4. What is the relation between authority and responsibility?

5. Write a detailed note for and against centralization and decentralization.
6. Discuss the concept of informal organization.

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6.14 FURTHER READINGS

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UNIT 7 STAFFING

Structure

- 7.0 Introduction
- 7.1 Objectives
- 7.2 General Principles of Staffing
 - 7.2.1 Importance of Staffing
 - 7.2.2 General Principles of Staffing
 - 7.2.3 Techniques of Staffing and Recruitment
 - 7.2.4 Selection
- 7.3 Staff Authority and Empowerment in the Organization
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- 7.6 Training
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7.0 INTRODUCTION

The staffing function, which is the process of providing qualified personnel to the various activities of the organization, is handled by the personnel department. It is a process through which managers recruit, select, train and develop organization members at all levels of the hierarchy. Several trends, such as global competition, technological dynamics, increasingly knowledgeable and sophisticated customers and more educated workforce have led companies to organize their manpower more responsively. In this unit, let's learn the important concepts of staffing.

7.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the factors that have an impact on personnel decisions and policies
- Understand the need for forecasting demand and potential supply of human resources in the staffing planning process
- Explain the steps in the function of staffing
- List the sources, both internal as well as external, from where the staff can be recruited

- Describe the processes by which organizations select and match candidates with the jobs and select the right personnel
- Understand how fair performance appraisal methods can be used to monitor the development of human resources

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7.2 GENERAL PRINCIPLES OF STAFFING

Staffing is the traditional management function of attraction and selection of the best people and putting them on jobs where their talents and skills can be best utilized, and retention of these people through incentives, job training and job enrichment programmes, in order to achieve both individual and organizational objectives. This emphasizes managing human and not material or financial resources. This function is becoming extremely specialized due to the unique importance and complexity of human nature and its ever-changing psychology, behaviour and attitudes.

The staffing function is generally handled by the personnel department where the personnel management is concerned with ‘planning, organizing, directing, and controlling of the procurement, development, compensation and integration of people into the system for the purpose of contributing to organizational, individual and social goals.’

7.2.1 Importance of Staffing

The importance of staffing can be understood through the following points:

- It helps in ensuring that the right personnel is selected and recruited to the right positions so that maximum level of productivity is maintained.
- It assists in attaining the judicious utilization of human resources.
- It helps in bringing down superfluous labour costs in tune with the productivity.
- It helps in discovering and hiring of qualified candidates for the right jobs in the organization.
- It assists in making sure that the morale of the employees and job satisfaction is kept at a good level.
- It ensures that there is not a shortage of employees or workforce in the organization so that the processes are not hampered or stalled unnecessarily.
- It attaches value to the staffing process so that the employees as well as the organization uses the work force in a productive and ethical manner.

7.2.2 General Principles of Staffing

The general principles of staffing can be understood through the staffing function consists of the following sequential steps:

- Step 1* **Job analysis:** Analyse the job by preparing a job description, job specification and job analysis.
- Step 2* **Actual recruitment:** This would explore all the internal and external sources from where the required personnel can be recruited.
- Step 3* **Employee selection:** This crucial step involves using such techniques as would identify and isolate suitable people who would eventually be selected.
- Step 4* **Retention:** When the right people have been hired, they must be retained so that they stay with the organization for a long time. This step discusses such factors that are influential in maintaining the work force.
- Step 5* **Training and development:** This consists of all such programmes that assist in continuous growth and development of employees.
- Step 6* **Performance appraisal and career development:** This step involves devising methods that would judge an employee's performance over a period of time and providing opportunities to employees to develop their careers and managerial talents.

Let's discuss some of these topics in this section.

Job Analysis

Job analysis is an orderly study of job requirements and involves systematic investigation relating to the operations and responsibilities including knowledge, skills and abilities required for the successful performance of a job.

Job Description

Job description is a systematic, organized and written statement of 'who does what, when, where, how and why,' and is a tangible outcome of job analysis. It describes the work to be performed, the responsibilities and duties involved, conditions under which the work is performed, the relationship of one job with other similar or dissimilar jobs and the skill, education, and experience required. A job description is used for a variety of purposes such as recruitment and selection, and job evaluation.

Job Specification

Job specification cites personality requirements and lists qualifications both physical and mental, necessary to perform the job properly. It is used to inform the prospective employees about minimum acceptable qualities required to get the job and perform it well. It may be a specific period of experience, educational degree or physical requirements such as height, weight, etc.

7.2.3 Techniques of Staffing and Recruitment

After manpower needs have been determined, the next step in the staffing function is recruitment of candidates for the jobs to be filled. Recruitment is the process of

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attracting qualified personnel, matching them with specific and suitable jobs, and assigning them to these jobs. Its aim is to develop and maintain adequate manpower resources upon which an organization can depend, when it needs additional employees.

There are basically two sources of supply from where the potential employees can be drawn, both at managerial as well as operative levels. These include the following:

- (i) Internal sources
- (ii) External sources

To what extent the internal sources or the external sources would be used would depend upon the specific environment of the organization as well as its philosophy of operations. Some companies prefer to promote from within for key positions because these personnel know the company well. Others prefer to hire from outside, because they can bring some new and fresh ideas into the company.

Some of the sources of external recruitment include the following:

- Active files of potential candidates kept in the organization
- Walk-ins and gate hiring
- Employment agencies
- Advertising
- Colleges, universities, and other educational institutions
- Professional associations
- Labour unions
- Military processing centres
- Employee referrals
- Billboards at social and community centres
- Scouting
- Foreign consulates
- Open house

7.2.4 Selection

Selection is a process of choosing the right candidate from a pool of applicants. This process is established to achieve a good match between the job requirements and the candidate's skills and motives. A good match results in increased productivity and quality performance. A bad match is extremely costly to the company due to the cost of training the candidates, the cost of mistakes made by them and the cost of replacement.

McMurray has listed some comprehensive steps that can be taken in the selection process.

The *first step* for the management is to be thoroughly familiar with the requirements of the job as well as the qualifications and expectations of the candidate. This would include any leadership qualities or decision making authority inherent in the job. After looking at the resumes of the candidates, those candidates whose qualifications do not adequately match the requirements of the job are rejected outright. This leaves a pool of more suitable candidates.

The *second step* is to conduct a screening interview before a more comprehensive interview is conducted, to have an initial assessment of the candidate's abilities and motives. This interview would generally establish a candidate's goals and aspirations and general attitudes towards the organization and what the candidate can contribute to the company.

The *third step* is the completion of a formal application form which summarily lists a person's background, education, experience and any special abilities. The data submitted in the application form determines the suitability of the candidate, as well as predicting his chances of success at the job. The information asked for and provided should be relevant to the selection, factual, legal and not unduly sensitive or personal.

The *fourth step* is to check the candidate's references and seek opinion from his previous employers or instructors if he is fresh out of college. This should be done prior to the comprehensive interview so as to have a better idea about the candidate, specially in the area of those characteristics that do not show up on application forms. These characteristics include leadership qualities, ability to act assertively and decisively, ability to communicate well and attitude towards subordinates as well as superiors.

The *fifth step* is to give tests to the candidate, in order, to make judgments about specific aspects about him. These tests may be classified in many ways and the type of test would depend upon the type of situation required to be filled. For example, 'intelligence tests' are given to measure the mental ability, mental capacity, and general intelligence of the candidate. The test usually includes verbal comprehension, memory, inductive reasoning, perception, etc. Most of these tests are framed by psychologists. Similarly, aptitude tests are meant to measure an individual's capacity to learn a given job, if the candidate is given proper training. IQ tests are one kind of an aptitude test. 'Performance tests' are given to evaluate the candidate's ability to do a job. A typist may be asked to type a letter, for example. Similarly, the classroom examinations at the end of the semester are kind of performance tests. 'Personality tests' are used to measure fundamental aspects of a candidate's personality such as self-confidence, emotional stability and behaviour under stress. 'Ink blot tests' are a kind of personality tests.

The *sixth step* is the in-depth interview which is conducted to evaluate the applicant's acceptability in terms of his ability to fit into the company's culture and his 'motives', in joining the company. An interview can be structured in which well designed questions are asked that are pertinent to the job and their answers

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analyzed, or it could be unstructured which is a free thought flowing two-way communication. In order to make the best of an interview, it is essential that both the candidate and the interviewer be fully prepared. The candidate must be poised and confident of himself. Good grooming, a choice of clothing, a firm handshake, the manner of sitting and general enthusiasm will give a good initial impression. It is also important for the candidate to know about the company as much as possible and be prepared to answer questions thoroughly and precisely.

The *seventh step* is to establish the applicant's physical health. This can be checked from his medical records as well as thorough physical examination conducted by the company physician. This will ensure that the candidate is physically fit and capable to exercise his responsibilities.

The *final step* is the process of hiring itself. In some responsible executive positions, the management may want to get socially acquainted before the final decision is made.

Check Your Progress

1. Why is the human factor considered the most important for the success of an organization?
2. What is job specification?

7.3 STAFF AUTHORITY AND EMPOWERMENT IN THE ORGANIZATION

Let's discuss the concepts of staff authority and empowerment in the organization.

Staff Authority

We know that authority can be of three types: line authority, staff authority and functional authority. The responsibilities of different authorities are varied. When it comes to staff authority, it provides the scope as to defining the role of the line authority and staff personnel. The basic idea is that the staff authority acts as a source of power to ensure that the person responsible for effective staff performance is able to perform the tasks and activities at the most efficient level. Line and staff authority works in close tandem since both need to work together to achieve organizational objectives. The objectives must be clear and specific. Various factors determine the scope of staff authority which is ultimately based on the size and nature of the staff personnel. The staff authority includes various roles like advisory or counseling role, service role, control role, etc.

Empowerment in the Organization

In this section, you will learn about empowerment of employees in the organization. The concept of empowerment of employees is an innovative approach. It is the

most visible outcome of the recent globalization and liberalization of the market economy and a corresponding competitive and rapidly changing market economy. The concept of empowerment has different meanings for different people. However, at its most practical level, it can be defined as the recognition and proper channelization of the existing strength, skills and knowledge of the people for the benefit of the organization. Employee empowerment can be achieved by developing multiple skills, by giving people more authority and responsibility on their jobs, by giving them access to information on developments and genuinely involving them in decision-making.

The Process of Empowerment

What Makes Empowerment Work?

It can be done via developing multi-skills, by giving people more authority and responsibility in their jobs, by giving them access to information on developments and genuinely involving people in decision-making. An empowering leader has to go through four stages: (i) empowering yourself, (ii) demonstrating empowerment, (iii) giving management guarantees, and (iv) taking risks.

Keys to Empowerment

There are three keys to empowering people and organizations: (a) information sharing, (b) creating autonomy through structure, and (c) replacing the hierarchy with teams.

1. Information sharing

- (i) **Need for information:** Why do people need information? They need it to know how they are doing, how their company is doing, and whether their efforts make any difference. Experience has invariably shown that information is instrumental in initiating the process of empowerment. Informed people are bound to act with responsibility. If the employees understand clearly the critical financial position of the company, they tend to provide ideas for saving money as well as enhancing revenue through better customer service. Like the owner, everyone attempts to do whatever he can to help the organization. Even where the situation is not a critical one, the employees provide ideas for expanding the business. They may furnish ideas for new ventures. They may also come forward to satisfy customers' needs in creative ways.
- (ii) **Building trust:** The most crucial contribution of sharing information is of building trust. Bureaucratic organizations are bankrupt in terms of trust. Hence, a lot of their energy is wasted in protecting themselves. The sharing of sensitive information itself promotes trust.
 - (a) **Handling mistakes:** The first issue is the way management handles mistakes. Asking 'who did it?' is not the way of an empowering culture. Information is used here for fixing blame rather than solving problems.

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This is a situation of trust-breakdown. The most appropriate question would be, ‘what went wrong and how to correct it?’ This is indicative of an empowering culture; it empowers people to take risks; to learn and to grow in a trusting climate.

(b) *Perception of goals:* The second issue is related to where the goals fit into the empowerment process. Goals are merely milestones of growth on the route of continuous betterment. Information helps in clarifying the level of their achievement. People with information about current performance levels happen to set challenging goals; and they enjoyed breaking these records.

(c) *Blockage of information:* The third issue is concerned with the question: ‘Is the act of sharing information blocked somewhere in the organization?’ Yes, it is. Some managers may be afraid of losing control. They tend to withhold part of the information. Despite their overt sincerity to empowerment, they divert from its implementation.

The final issue is ‘does information sharing alone cause empowerment of people and organizations?’ Certainly, not. It is merely a first step towards it. As soon as information is shared and trust is built, the management has to move towards the second and third keys to empowerment simultaneously.

2. Creating autonomy through structure

Empowerment is initiated with increased rather than no structuring. Organizations that start the programme with a participative and supportive leadership style invite problems. Successful companies use strong leaders to show the path, teach them new skills and clarify different parameters of empowerment. However, as soon as people become familiar with the new culture, there is less need for structure. There are several problems in organizations starting with little initial structure. People are only familiar with bureaucratic ways of working, and thus they feel discomfort in the hierarchy-less structure. There is need to change their habits and expectations.

What are the structural elements of empowerment? It is not merely the organizational chart. The parameters of operation must be clarified. These parameters or elements of structure include vision statements, goal-setting, decision-making rules, performance appraisal process and training.

3. Replacing hierarchy with teams

While the above structural measures are taken to create autonomy, there is a need for minimizing dependence on hierarchy. This leads us to the third key. A vacuum is created by downsizing management layers and enhancing spans of control. The question still remains: ‘Who has to make important management decisions?’ The complexity of the present situation necessitates collaborative decision-making. Empowered people can be provided support as well as synergy by the empowered teams. These teams are quite different from participative teams, quality circles or semi-autonomous teams. Instead of merely recommending ideas, they make

decisions, implement them, as well as accept accountability. In one particular company, these teams were provided training on effective teamwork. Thereafter, they started acting with autonomy and took responsibilities earlier held by their managers. In another company, after several years of training, the teams started working as managers. Thus, as self-managed teams, they tended to make recruitment, performance appraisal, work schedule, budgetary and other decisions.

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7.4 ORIENTATION

Orientation or induction is a technique by which a new employee is rehabilitated into the changed surroundings and introduced to the practices, policies and purpose of the organization. A formal orientation tries to bridge the information gap of the new employee. When a person joins an organization he is a stranger to it. He may experience a lot of difficulties that could lead to tension and stress in him. This in turn can reduce his effectiveness.

Procedure for Orientation

Any organization has an obligation to make the integration of the individual into the organization as smooth and anxiety free as possible. This can be achieved through a formal or informal placement orientation programme depending on the size of the organization and the complexity of the individual's new environment.

There is no model induction procedure but each industry develops its own procedures as per its needs.

The HR department may initiate the following steps while organizing the induction programme:

1. Welcome the new recruit to the organization.
2. Provide knowledge about the company: what it is, what it does, how it functions, the importance of its products; knowledge of conditions of employment, and the company's welfare services.
3. Give the company's manual to the new recruit.
4. Show the location/department where the new recruit will work. This step should include specific job location and duties.
5. Provide details about various groups and the extent of unionism within the company. In this step, the new employee is given a brief idea about the set-up of the department, production processes, different categories of employees, work rules, safety precautions and rules.
6. Give details about about pay, benefits, holidays, leave and so on.
7. Define the employee's career prospects with reference to the training and development activities that the company organizes with special reference to the new recruits' position.

7.5 CAREER DEVELOPMENT AND CAREER STAGES

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The proper way to analyze and discuss careers is to look at them as made up of stages. We can identify five career stages that most people will go through during their adult years, regardless of the type of work they do. These stages are exploration, establishment, mid-career, late career and decline.

1. Exploration Many of the critical choices individuals make about their careers, are made prior to entering the workforce on a paid basis. Very early in our lives, our parents and teachers begin to narrow our alternatives and lead us in certain directions. The careers of our parents, their aspirations for their children and their financial sources are crucial factors in determining our perception of what careers are open to us.

The exploration period ends for most of us in our mid-twenties as we make the transition from college to work. From an organizational standpoint this stage has little relevance since it occurs prior to employment. However, this period is not irrelevant because it is a time when a number of expectations about one's career are developed, many of which are unrealistic. Such expectations may lie dormant for years and then pop up later to frustrate both the employee and the employer.

2. Establishment The establishment period begins with the search for work and includes our first job, being accepted by our peers, learning the job and gaining the first tangible evidence of success or failure in the real world. It is a time which begins with uncertainties, anxieties and risks. It is also marked by making mistakes and learning from these mistakes and the gradual assumption of increased responsibilities. However, the individual in this stage has yet to reach his peak productivity and rarely gets the job that carries great power or high status.

3. Mid-career Most people do not face their first severe dilemmas until they reach their mid-career stage. This is a time when individuals may continue their prior improvements in performance or begin to deteriorate. At this point in a career, one is expected to have moved beyond apprenticeship to worker-status. Those who make a successful transition, assume greater responsibilities and get rewards. For others, it may be a time for reassessment, job changes, adjustment of priorities or the pursuit of alternative lifestyles.

4. Late career For those who continue to grow through the mid-career stage, the late career usually is a pleasant time when one is allowed the luxury to relax a bit. It is the time when one can enjoy the respect given to him by younger employees. During the late career, individuals are no longer learning, they teach others on the basis of the knowledge they have gained. To those

who have stagnated during the previous stage, the late career brings the reality that they cannot change the world as they had once thought. It is a time when individuals have decreased work mobility and may be locked into their current job. One starts looking forward to retirement and the opportunities of doing something different.

5. **Decline** The final stage in one's career is difficult for everyone but it is hardest for those who have had continued successes in the earlier stages. After several decades of continuous achievements and high levels of performance, the time has come for retirement. Managers should be more concerned with the match for new employees and those just beginning their employment careers. Successful placement at this stage should provide significant advantages to both the organization and the individual.

Many employees lack proper information about career options. As managers identify career-paths that successful employees follow within the organization, they should publish this information. To provide information to all employees about job openings, managers can use job posting. Job posting provides a channel by which the organization lets employees know what jobs are available and what requirements they will have to fulfil to achieve the promotions to which they may aspire.

Career Development

One of the most logical parts of a career development programme is career counselling. This can be made part of an individual's annual performance review. The career counselling process should contain the following elements:

- (a) The employee's goals, aspirations and expectations with regard to his own career for the next five or six years;
- (b) The manager's view of the opportunities available and the degree to which the employee's aspirations are realistic and match with the opportunities available;
- (c) Identification of what the employee would have to do in the way of further self-development to qualify for new opportunities;
- (d) New job assignments that would prepare the employee for further career growth.

Training and educational development activities reduce the possibilities that employees will find themselves with obsolete skills. When these development activities are properly aligned with an individual's aspirations and organizational needs, they become an essential element in an employee's career growth. In addition to encouraging employees to continue their education and training so as to prevent obsolescence and stimulate career growth, managers should be aware that periodic job changes can achieve similar ends. Job changes can take the form of vertical promotions, lateral transfers or assignments organized around new tasks.

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7.6 TRAINING

To improve the effectiveness of every organization they need to have well-trained and experienced people to perform the activities that have to be done. If the current or potential job occupant can meet this requirement, training is not important. But when this is not the case, it is necessary to raise the skill levels and increase the versatility and adaptability of employees. Inadequate job performance or a decline in productivity or changes result in job redesigning or a technological break; which require some type of training and development efforts. As the jobs become more complex, the importance of employee development also increases. In a rapidly changing society, employee training and development is not only an activity that is desirable but also an activity that an organization must commit resources to if it is to maintain a viable and knowledgeable workforce.

Steps in the Training Programmes

The training programme is a costly and time-consuming process. The training procedure discussed below is essentially an adoption of the job instruction-training course.

(i) Discovering or Identifying the Training Needs

A training programme should be established only when it is felt that it would assist in the solution of specific problems. Identification of training needs must contain three types of analysis:

- Organizational analysis
- Operations analysis
- Man analysis

(ii) Preparing the Instructor

The instructor is the key figure in the entire programme. He must know both the job to be taught and how to teach it. The job must be divided into logical parts so that each can be taught at a proper time without the trainee losing perspective of the whole. This becomes a lesson plan. For each part one should have in mind the desired technique of instruction, i.e., whether a particular point is best taught by illustration, demonstration or explanation.

(iii) Preparing the Trainee

This step consists of:

- Putting the learner at ease.
- Stating the importance and ingredients of the job and its relationship to work flow;
- Explaining why he is being taught

- Creating interest and encouraging questions, finding out what the learner already knows about his job or other jobs.
- Explaining the ‘why’ of the whole job and relating it to some job the worker already knows.
- Placing the learner as close to his normal position as possible, and
- Familiarizing him with the equipment, materials, tools and trade terms.

(iv) Presenting the Operations

This is the most important step in a training programme. The trainer should clearly tell, show, illustrate and question in order to put over the new knowledge and operations. There are many ways of presenting the operation namely, explanation, and demonstration, and so on. An instructor mostly uses the method of explanation. In addition, one may illustrate various points through the use of pictures, charts, diagrams and other training aids. Demonstration is an excellent device when the job is essentially physical in nature.

Instructions should be given clearly, completely and patiently; there should be an emphasis on key points and one point should be explained at a time. The trainee should also be encouraged to ask questions in order to indicate that he really knows and understands the job.

(v) Try out the Trainees’ Performance

Under this, the trainee is asked to go through the job several times slowly, explaining him each step. Mistakes are corrected, and if necessary, some complicated steps are done for the trainee the first time. Then the trainee is asked to do the job, gradually building up skill and speed. As soon as the trainee demonstrates that he can do the job in the right way, he is put on his own. The trainee, through repetitive practice, will acquire more skill.

(vi) Follow-up

The final step in most training procedures is that of follow up. This step is undertaken with a view to testing the effectiveness of training efforts. The follow up system should provide feedback on training effectiveness and on total value of training system. It is worth remembering that if the learner hasn’t learnt, the teacher hasn’t taught.

7.7 PERFORMANCE APPRAISAL

Performance appraisal is method of evaluating the behaviour of employees in the work spot, normally including both the quantitative and qualitative aspects of job performance. It is a systematic and objective way of evaluating both work-related behaviour and potential of employees. It is a process that involves determining and communicating to an employee how he is performing the job and ideally

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establishing a plan of improvement. Performance appraisal emphasizes individual development. It is used for evaluating the performance of all the human resources working at all levels of organization and of all types. It evaluates the performance of technical, professional and managerial staff.

Process of Performance Appraisal

Performance appraisal is planned, developed and implemented through a series of steps. These steps are as follows.

(i) Job Analysis, Job Description and Job Specification

Performance appraisal is a process not to be undertaken in isolation of various human resources functions. It begins with job analysis, job description and job specification. These help in establishing the standard performance.

(ii) Establishing Standards of Performance

Appraisal systems require performance standards that serve as benchmarks against which performance is measured. The standards set for performance must be clearly defined and unambiguous. It should be attainable by every employee. To be useful, standards should relate to the desired result of each job. Performance standards must be clear to both the appraiser and the appraisee. The performance standards or goals must be developed with the help of the supervisors to ensure that all the relevant factors have been included. Where the output can be measured, the personal characteristics, which contribute to employee performance, must be determined.

Goals must be written down. They must be measurable within certain time and cost considerations.

(iii) Communicating Performance Standards to Employees

Performance appraisal involves at least two parties; the appraiser who does the appraisal and the appraisee whose performance is being evaluated. The performance standards specified in the second step above are to be communicated and explained to the employees (both appraiser and appraisee) so that they know what is expected of them. Feedback should also be given so that there is no confusion or misunderstanding. Through feedback the manager knows that the information has reached the employees. If necessary, the standards may be revised or modified in the light of feedback obtained from the employees and evaluators. As pointed out by DeCenzo and Robbins, 'too many jobs have vague performance standards and the problem is compounded when these standards are set in isolation and do not involve the employee.'

(iv) Measuring Actual Performance

After the performance standards are set and accepted, the next step is to measure actual performance. This requires choosing the right technique of measurement,

identifying the internal and external factors influencing performance and collecting information on the results achieved. It can be affected through personal observation, written and oral reports from supervisors. The performance of different employees should be so measured that it is comparable. Performance measures, to be helpful must be easy to use, be reliable and report on the critical behaviour that determine performance.

Performance measures may be objective or subjective.

(a) *Objective Performance Measures*: Objective performance measures are indications of job performance that can be verified by others and are usually quantitative. Objective criteria include the following:

- Quality of production
- Degree of training needed
- Accidents in a given period
- Absenteeism
- Length of service

(b) *Subjective Performance Measures*: Subjective performance measures are ratings that are based on the personal standards of opinions of those doing the evaluation and are not verifiable by others. Subjective criteria include:

- Ratings by supervisors
- Knowledge about overall goals
- Contribution to socio-cultural values of the environment

It should be noted here that objective criteria could be laid down while evaluating lower level jobs which are specific and defined clearly. This is not the case with middle level and higher-level positions that are complex and vague.

(v) Comparing Actual Performance with Standards and Discuss the Appraisal with Employees.

Actual performance is compared with the predetermined performance standards. The actual performance may be better than expected and sometimes it may go off track. Deviations if any from the set standards are noted. Along with the deviations, the reasons behind them are also analysed and discussed. Such discussions will enable an employee to know his weaknesses and strengths. The former are discussed so that the employee is motivated to improve his performance.

The assessment of another person's contribution and ability is not an easy task. It has serious emotional overtones as it affects the self-esteem of the appraisee. Any appraisal based on subjective criteria is likely to be questioned by the appraisee and leave him quite dejected and unhappy when the appraisal turns out to be negative.

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(vii) Initiating Corrective Action, if any

The last step in the process is to initiate corrective action essential to improve the performance of the employee. Corrective action is of two types:

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- (a) The employee can be warned so that he himself can make necessary attempts to improve his performance. But this is not enough or proper.
- (b) Through mutual discussions with employees, the steps required to improve performance are identified and initiated. The reasons for low performance are identified and initiated. The reasons for low performance should be probed. The employee is taken into confidence and motivated for better performance. Training, coaching, counselling, and so on, are examples of corrective actions that help to improve performance.

Check Your Progress

3. What are the stages an empowering leader needs to go through?
4. List the five stages of career.
5. Mention the types of analysis need for identification of training.
6. What are the criteria of subjective criteria for Subjective Performance Measures ?

7.8 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The human factor is considered the most significant one for the success of an organization because it is the people who have to use all other resources. Without the productive efforts of its workers, the materials and resources would be of no use.
2. It is used to inform the prospective employees about minimum acceptable qualities required to get the job and perform it well. It may be a specific period of experience, educational degree or physical requirements such as height, weight, etc.
3. An empowering leader has to go through four stages: (i) empowering yourself, (ii) demonstrating empowerment, (iii) giving management guarantees, and (iv) taking risks.
4. Five stages of career are exploration, establishment, mid-career, late career and decline.
5. Identification of training needs must contain three types of analysis:
 - Organizational analysis
 - Operations analysis
 - Man analysis

7. Subjective criteria for *Subjective Performance Measures* include:

Staffing

- Ratings by supervisors
- Knowledge about overall goals
- Contribution to socio-cultural values of the environment

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7.9 SUMMARY

- Staffing is the traditional management function of attraction and selection of the best people and putting them on jobs where their talents and skills can be best utilized, and retention of these people through incentives, job training and job enrichment programmes, in order to achieve both individual and organizational objectives.
- The general principles of staffing can be understood through the staffing function consists of the following sequential steps: job analysis, actual recruitment, employee selection, retention, training and development and performance appraisal and career development.
- Selection is a process of choosing the right candidate from a pool of applicants. This process is established to achieve a good match between the job requirements and the candidate's skills and motives.
- When it comes to staff authority, it provides the scope as to defining the role of the line authority and staff personnel. The basic idea is that the staff authority acts as a source of power to ensure that the person responsible for effective staff performance is able to perform the tasks and activities at the most efficient level.
- The concept of empowerment has different meanings for different people. However, at its most practical level, it can be defined as the recognition and proper channelization of the existing strength, skills and knowledge of the people for the benefit of the organization.
- Orientation or induction is a technique by which a new employee is rehabilitated into the changed surroundings and introduced to the practices, policies and purpose of the organization. A formal orientation tries to bridge the information gap of the new employee.
- Five career stages that most people will go through during their adult years, regardless of the type of work they do are exploration, establishment, mid-career, late career and decline.
- Performance appraisal is method of evaluating the behaviour of employees in the work spot, normally including both the quantitative and qualitative aspects of job performance.

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7.10 KEY WORDS

- **Staffing:** It is the traditional management function of attraction and selection of the best people and putting them on jobs where their talents and skills can be best utilized, and retention of these people through incentives, job training and job enrichment programmes, in order to achieve both individual and organizational objectives.
- **Recruitment:** It is the process of attracting qualified personnel, matching them with specific and suitable jobs, and assigning them to these jobs.
- **Selection:** It is a process of choosing the right candidate from a pool of applicants. This process is established to achieve a good match between the job requirements and the candidate's skills and motives.
- **Orientation:** It is a technique by which a new employee is rehabilitated into the changed surroundings and introduced to the practices, policies and purpose of the organization.
- **Training:** It is a process of learning a sequence of programmed behaviour. It is application of knowledge.
- **Performance appraisal:** It is method of evaluating the behaviour of employees in the work spot, normally including both the quantitative and qualitative aspects of job performance.

7.11 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What is staffing function?
2. What is staff authority?
3. Write a short note on orientation in an organization.
4. What is career development?
5. Briefly discuss training in an organization.

Long Answer Questions

1. Explain empowerment in an organization.
2. Describe the process of selection.
3. Explain the different career stages of an employee.
4. How is recruitment carried out in an organization?
5. Discuss the process of performance appraisal.

7.12 FURTHER READINGS

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UNIT 8 CREATIVITY AND INNOVATION

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Structure

- 8.0 Introduction
- 8.1 Objectives
- 8.2 Motivation: Meaning and Importance
 - 8.2.1 Importance
 - 8.2.2 Human Factors of Motivation
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8.0 INTRODUCTION

People differ by nature, not only in their ability to perform a specific task but also in their will to do so. People with less ability but stronger will are able to perform better than people with superior ability and lack of will. Hard work is crucial to success and achievement. This belief was underscored by Albert Einstein when he said that 'genius is 10 per cent inspiration and 90 per cent perspiration.' This 'will' to do is known as motivation.

Creativity facilitates the efficient functioning of an organization, and for creativity it is a must to have motivation. Motivation forms the backbone of creativity and innovation in management. In this unit, we will study the meaning and nature of motivation, the human factors of motivation, different motivation theories and the physiological and psychological aspects of motivation.

8.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the meaning of motivation
- Analyse the nature of the motivational process
- Explain the various types of motivation
- Know the history of the study of motivation as a resource for behaviour modification
- Discuss content theories of motivation such as Maslow model of hierarchical needs, ERG theory of motivation, McClelland theory of needs and Herzberg's two-factor theory of motivation

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8.2 MOTIVATION: MEANING AND IMPORTANCE

Motivated people are in a constant state of tension. This tension is relieved by drives towards an activity and outcome that is meant to reduce or relieve such tension. The greater the tension, the more activity will be needed to bring about relief and hence higher the motivation. Thus the basic motivation process can be depicted as follows:

The concept of motivation has 3 basic characteristics. These are:

- Effort
- Persistence
- Direction

Thus the motivation process involves the following steps.

1. Analysis of situation
2. Selecting and applying appropriate motivators
3. Follow-up

8.2.1 Importance

Motivation in management is important because of the following reasons:

- The motivational techniques in management allows the management to help change the negative attitude of the employees about the work and culture into positive attitudes. For example, incentives act as a good motivational technique.
- Motivational techniques ensure that the performance of the employees grows to not only improve the efficiency of employees but also help the organizational objectives effectively. For example, training and conferences improves the skills of the employees.

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- Motivational techniques allow the employers to make sure that employees are prepared to adapt to the changes in the organization be it due to technology or any other factor.
- Motivational factors assist the employers in ensuring the absenteeism in the organization is lower by keeping the working conditions, rewards, relationships and other such factors in check.
- Motivation techniques are important as they help the employers to maintain a good employee turnover. Excess recruitment not only harms the reputation of the organization but also affects the finances and the productivity levels.

8.2.2 Human Factors of Motivation

Motivation is closely tied with certain characteristics of human behaviour. Lazy and irresponsible people seldom get motivated. Certain traits are considered as prerequisites of motivations. These traits are either inherited or learned or both. Family environment during early years plays a very important role in the behavioural pattern of an individual. Certain traits are genetic in nature and may not be subject to modification. However, even if the behaviour cannot be changed, understanding it may improve the predictability of human actions.

The reasons for human conduct can be classified into two categories. These are (1) inherited characteristics and (2) learned characteristics. Let us explain each of these two in more detail.

1. Inherited characteristics

Some of the inherited characteristics that may or may not be changed by external forces and may or may not be important determinants of performance are as follows:

- (a) Physiological characteristics
- (b) Intelligence
- (c) Sex
- (d) Age
- (e) Religion

2. Learned characteristics

Some of the behavioural characteristics that account for enormous diversity in human behaviour, are a product of our exposure to various situations both within the family and the outside environment. These characteristics are learned, where learning is defined as a 'relatively permanent change in behaviour resulting from interactions with the environment'.

Some of these learned characteristics are:

- (a) Perception
- (b) Attitude
- (c) Personality

Environmental Effect on Behaviour

While behaviour is a reaction to situations and the type of reaction is based upon some inherited and some learned behavioural characteristics, the environment is an important catalyst in determining such type of reactions. If the environment is complimentary to established behaviour then the actions are positively reinforced. However, if the environment is hostile to the values and skills of the worker then negative reactions take place. For example, some of the coolest people have been known to lose temper under certain situations. Highly skilled people have changed jobs because the environment in the job situations was not conducive to their enhancement. On the other hand, less skilled people have learned skills and forged ahead because of the right environment.

The environment surrounding the workplace has two elements. These are physical and social. The physical environment at the workplace is the arrangement of people and things so that it has a positive influence on people. Some of the physical factors that influence behaviour are noise, heat, light, ventilation, cleanliness, accessibility of work tools, space utilization, colour coordination, nature of job, office furnishing, number of people working at a given place etc.

The social environment relates to interaction among people and respect for numerous social and societal laws, rules, and norms created by people to regulate and control behaviour of people. These social influences are affected by family environment, friends, associates, peers at work, groups to which an individual belongs etc. Much of the behaviour is an outcome of respect for norms and laws. Norms are unwritten rules and informal expectations about how people behave in certain social situations.

Rules and laws, on the other hand, are formalized and written standards of behaviour. Both rules and laws are strictly enforced, laws by the legal system and rules by the social system. Laws relate to all members of the society. For example, stealing property of others is illegal and punishable by law and applies to all. Rules, on the other hand, affect only a particular segment of the society. These may be the rules of a group, club or an organization. Working from 9 AM to 5 PM is an organizational rule. Airlines have certain rules about safety belts and smoking. There are rules for visitors visiting a public place or a tourist place.

Observing the norms, rules and laws voluntarily makes for an orderly society and allows for predictability of behaviours.

8.2.3 Physiological and Psychological Aspects of Motivation

Up till now we have learnt about the nature of motivation and the human factors which affect motivation. In this section, we will learn about the types of motivation, namely the physiological and psychological aspects of motivation.

The physiological aspects of motivation are also called biological motivation are these are related to the physiological mechanisms of the body and their effect on the motivation of the humans. Physiological aspects of motivation find relation

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with the early attempts and theories to study motivation. The examples of physiological aspects of motivation are: thirst, hunger and sex which are considered very crucial to the sustenance of human life. The fundamental basis of these physiological aspects are that these factors reflect the adaptive approach in human beings. This is to say that the decrease in any such factors create a drive for its fulfillment which in effect becomes a source of motivation. These sources affect the human behaviour and ultimately their actions on the way to achieve their primary goals. Some popular theories of motivation related to the physiological aspects of motivation are: Drive reduction theories and Maslow's Needs hierarchy.

Psychological aspects of motivation are basically sources of motivation which affects the human mind and their accepted norms of behaviour. These include categories like psychosocial motives which are motives mostly learned or acquired. Social groups such as family, neighbourhood, friends, and relatives do contribute a lot in acquiring social motives. These are complex forms of motives mainly resulting from the individual's interaction with her/his social environment. Examples include: curiosity and exploration, need for affiliation and need for achievement, need for power.

Check Your Progress

1. What are the three basic characteristics of motivation?
2. What are learned characteristics?

8.3 MOTIVATION THEORIES

There are basically two types of theories that relate to and define the motivational processes. These are the 'content theories' that attempt to determine and specify drives and needs that motivate people to work and 'process theories' that attempt to identify the variables that go into motivation and their relationship with each other. These theories are described in greater detail.

The content theories have been developed to explain the nature of motivation in terms of types of need that people experience. They attempt to focus on factors within a person that initiate and direct a certain type of behaviour or check certain other type of behaviour. The basic idea underlying such theories is that people have certain fundamental needs, both physiological and psychological in nature, and that they are motivated to engage in activities that would satisfy these needs. Thus the nature of needs establishes the nature of motivation that results in a specific behaviour aimed at reaching the goal of satisfying such needs.

8.3.1 Maslow's Need Hierarchy

Maslow's 'needs hierarchy theory' is probably the most widely used theory of motivation in organizations. Abraham Maslow suggested that people have a complex set of exceptionally strong needs and the behaviour of individuals at a particular

moment is usually determined by their strongest need. He developed his model of human motivation in 1943, based upon his own clinical experience and formulated his theory of hierarchical needs by asking the same question, ‘What is it that makes people behave the way they do?’ and made a list of answers from which he developed a pattern. His theory is based upon two assumptions. First that human beings have many needs that are different in nature ranging from the biological needs at the lower level that is the level of survival, to psychological needs at the upper extreme that is the level of growth. Second that these needs occur in an order of hierarchy so that lower level needs must be satisfied before higher level needs arise or become motivators. Mahatma Gandhi, the Indian leader, once remarked that ‘even God cannot talk to a hungry man except in terms of food.’ Similarly, there is a quotation from the Holy Guru Granth Sahib, the holy scripture of Sikhs in India that quotes a holy man saying to God, ‘Take you rosary beads away. I cannot worship and meditate on you when I am hungry’. This means that if the people’s basic needs that are biological in nature are unsatisfied, than their total attention will be focused upon these needs and it will not be possible to communicate with them about other matters.

This model of hierarchical needs explains human behaviour in a more dynamic and realistic manner and is primarily based upon people’s inner states as a basis for motivation and the environmental conditions do not play any significant role. Maslow postulates five basic needs arranged in successive levels. These needs continue to change resulting in change in goals and activities. These five needs are arranged in the form as shown. The first three levels of needs at the bottom are known as ‘deficiency’ needs and they must be satisfied in order to ensure the individual’s very existence and security and make him fundamentally comfortable. The top two sets of needs are termed ‘growth’ needs because they are concerned with personal growth, development and realization of one’s potential.

These needs are explained in detail as follows.

Physiological Needs

The physiological needs form the foundation of the hierarchy and tend to have the highest strength in terms of motivation. These are primarily the needs arising out of physiological or biological tension and they are there to sustain life itself and include the basic needs for food, water, shelter and sex. Sexual need and desire is not to be confused with that which is at the third level. Once these basic needs are satisfied to the degree needed for the sufficient and comfortable operation of the body, then the other levels of needs become important and start acting as motivators.

Security and Safety Needs

Once the physiological needs are gratified, the safety and security needs become predominant. These are the needs for self-preservation as against physiological needs that are for survival. These needs include those of security, stability, freedom from anxiety and a structured and ordered environment. These safety and security

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needs are really provisions against deprivation of satisfaction of physiological needs in the future. It also involves a sense of protection against threats and danger of losing the job in the future. In a civilized society such as ours, a person is usually protected from threats of violence or extremes in climate or fear of material safety, so that the safety and security needs dwell upon economic and job security, life and medical insurance and other protective measures to safeguard the satisfaction of physiological needs in the future that may be unpredictable.

Love and Social Needs

After the needs of the body and security are satisfied, a sense of belonging and acceptance becomes prominent in motivating behaviour. These needs include the needs for love, friendship, affection, and social interaction. We look for an environment where we are understood, respected and wanted. That is one reason for 'polarization' where people of similar background and beliefs tend to group together. 'Love thy neighbour' has perhaps a profound meaning.

Esteem Needs

The need for esteem is to attain recognition from others that would induce a feeling of self-worth and self-confidence in the individual. It is an urge for achievement, prestige, status and power. Self-respect is the internal recognition. The respect from others is the external recognition and an appreciation of one's individuality as well as his contribution. This would result in self-confidence, independence, status, reputation and prestige. People then would begin to feel that they are useful and have some positive effect on their surrounding environment.

Self-actualization Needs

This last need is the need to develop fully and to realize one's capacities and potentialities to the fullest extent possible, whatever these capacities and potentialities may be. This is the highest level of need in Maslow's hierarchy and is activated as motivator when all other needs have been reasonably fulfilled. At this level, the person seeks challenging work assignments that allow for creativity and opportunities for personal growth and advancement.

This need is for soul searching and is inner-oriented. A self-actualized person is creative, independent, content, and spontaneous and has a good perception of reality. He is constantly striving to realize his full potential. Thus, 'what a man 'can' be, 'must' be'.

Maslow's model is a general model in which all needs interact with each other to some degree. Needs are not necessarily linear, nor is the order of needs so rigid. The relative dominance of many needs is variable and is continuously shifting. For example, a self-actualized person may shift his priority to social needs and love needs instead of prestige and status, if suddenly there occurs a vacuum due to loss of a loved one. Similarly, a person may not go to the higher need, even when his lower needs are satisfied. It is also likely that a well-prepared elite person

may decide to enter a commune where there is overwhelming emphasis on love and affection rather than climb the corporate ladder.

Maslow's theory made management aware that people are motivated by a wide variety of needs and that management must provide an opportunity for the employees to satisfy these needs through creating a physical and conceptual work environment, so that people are motivated to do their best to achieve organizational goals.

The first level needs in the hierarchy, the physiological needs can be satisfied through such organizational efforts and incentives as adequate wages and salary, acceptable working conditions in order to improve comfort, and avoid fatigue, more leisure time and acceptable work environment in terms of lighting, ventilation, rest rooms, working space, heat and noise level. Some bonuses and other fringe benefits will be highly motivational.

The second level needs of safety and security can be satisfied through management's initiative to provide life insurance, medical insurance, job security, cost of living increments, pension plans, freedom to unionize, and employee protection against automation. The economic security to some degree is provided by law in the form of minimum wages, unemployment benefits, and welfare benefits. Similarly, unions protect employees against discrimination and indiscriminate firing.

Since first level physiological needs and second level security needs are primarily met by business, industrial, societal and legal environment, management must take steps to satisfy higher level needs and must establish as to which of these needs are the stronger sources of motivation.

When the third level needs of love and affiliation become motivators, then people find an opportunity in their work environment for establishing friendly interpersonal relationships.

The fourth level needs of self-esteem involve a feeling of satisfaction and achievement and recognition for such achievement.

The fifth and top-level needs of self-actualization demand growth and creativity.

Maslow believed that from the point of organizational behaviour, the management should strive to create an organizational hierarchy. Research has established that top managers generally are more able to satisfy their higher level needs than lower level managers who have more routine jobs. Blue collar workers who have very little freedom over job operations may not even experience the higher level need.

8.3.2 Herzberg's Two-Factor Theory

Fredrick Herzberg and his associates developed the two-factor theory in the late 1950s and early 1960s. As part of a study of job satisfaction, Herzberg and his colleagues conducted in-depth interviews with over 200 engineers and accountants

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in the Pittsburgh area. The researchers felt that a person's relation to his work is a basic one and that his attitude towards work would determine his organization related behaviour. The respondents were required to describe in detail the type of environment in which they felt exceptionally good about their jobs and the type of environment in which they felt bad about their jobs. It seems natural to believe that people who are generally satisfied with their jobs will be more dedicated to their work and perform it well as compared to those people who are dissatisfied with their jobs. If the logic seems justified, then it would be useful to isolate those factors and conditions that produce satisfaction with the job and those factors that produce dissatisfaction.

The basic questions that were asked in the survey were the following two:

- (a) What is it about your job that you like? and
- (b) What is it about your job that you dislike?

Based upon the answers it was concluded that there are certain characteristics or factors that tend to be consistently related to job satisfaction and there are other factors that are consistently related to job dissatisfaction. Herzberg named the factors that are related to job satisfaction as motivational factors, that are intrinsic in nature and factors related to job dissatisfaction as maintenance or hygiene factors, that are extrinsic in nature. These factors are described in detail as follows.

Hygiene Factors

Hygiene factors do not motivate people. They simply prevent dissatisfaction and maintain status quo. They produce no growth but prevent loss. The absence of these factors leads to job dissatisfaction. The elimination of dissatisfaction does not mean satisfaction and these factors simply maintain a 'zero level of motivation'. For example, if a person indicated 'low pay as a cause of dissatisfaction, it would not necessarily identify 'high pay' as a cause of satisfaction.

Some of the hygiene factors are

- Wages, salary and other types of employee benefits.
- Company policies and administration rules that govern the working environment.
- Interpersonal relations with peers, supervisors and subordinates. Cordial relations with all will prevent frustration and dissatisfaction.
- Working conditions and job security. The job security may be in the form of tenure or it could be supported by a strong union.
- Supervisor's technical competence as well as the quality of his supervision. If the supervisor is knowledgeable about the work and is patient with his subordinates and explains and guides them well, the subordinates would not be dissatisfied in this respect.

All the hygiene factors are designed to avoid damage to efficiency or morale and these are not expected to stimulate positive growth.

The word ‘hygiene’ is taken from the medical field, where it means taking steps to maintain your health but not necessarily improve it. For example, brushing your teeth helps prevent cavities but does not improve the condition of your teeth. Similarly, hygiene factors in this theory of motivation prevent decay but do not encourage growth.

Hawthorne experiments were highly conclusive in suggesting that improvements in working conditions or increments in financial benefits do not contribute to motivated performance. A new plant or upgraded facilities at a plant seldom motivate workers if they do not enjoy their work and these physical facilities are no substitute for employee feelings of recognition and achievement.

Motivational Factors

These factors are related to the nature of work (job content) and are intrinsic to the job itself. These factors have a positive influence on morale, satisfaction, efficiency and higher productivity. Some of these factors are :

- The job itself
- Recognition
- Achievement
- Responsibility
- Growth and advancement

Herzberg’s two-factor model is tied in with Maslow’s basic model in that Maslow is helpful in identifying needs and Herzberg provides us with directions and incentives that tend to satisfy these needs. Also the hygiene factors in Herzberg’s model satisfy the first three levels of Maslow’s model of physiological needs, i.e. security, safety and social needs and the motivational factors satisfy the two higher level needs of esteem and self-actualization.

8.3.3 ERG Theory

The ERG need theory, developed by Clayton Alerter, is a refinement of Maslow’s needs hierarchy. Instead of Maslow’s five needs, ERG theory condenses these five needs into three needs. These three needs are those of Existence, Relatedness and Growth. The E, R and G are the initials for these needs.

Existence needs These needs are roughly comparable to the physiological and safety needs of Maslow’s model and are satisfied primarily by material incentives. They include all physiological needs of Maslow’s model and such safety needs that are satisfied by financial and physical conditions rather than interpersonal relations. These include the needs for sustenance, shelter and physical and psychological safety from threats to people’s existence and well-being.

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Relatedness needs Relatedness needs roughly correspond to social and esteem needs in Maslow's hierarchy. These needs are satisfied by personal relationships and social interaction with others. It involves open communication and honest exchange of thoughts and feelings with other organizational members.

Growth needs These are the needs to develop and grow and reach the full potential that a person is capable of reaching. They are similar to Maslow's self-actualization needs. These needs are fulfilled by strong personal involvement in the organizational environment and by accepting new opportunities and challenges.

8.3.4 Vroom's Expectancy Model

The expectancy model is based upon the belief that motivation is determined by the nature of the reward people expect to get as a result of their job performance. The underlying assumption is that a man is a rational being and will try to maximize his perceived value of such rewards. He will choose an alternative that would give him the most benefit. People are highly motivated if they believe that a certain type of behaviour will lead to a certain type of outcome and their extent of personal preference for that type of outcome.

There are 3 important elements in the model. These are:

- **Expectancy** This is a person's perception of the likelihood that a particular outcome will result from a particular behaviour or action. This likelihood is probabilistic in nature and describes the relationship between an act and its outcome. For example, if a student works hard during the semester, he will expect to do well in the final examination. It is not 100 per cent definite that he will indeed do well in the examination. There is some probability attached to this outcome. Similarly, if a person works hard, he may expect to perform better and increase productivity. For example, a worker works hard and is absolutely certain (expectancy = 1.0) that he can produce an average of 15 units a day and 60 per cent certain (expectancy = 0.6) that he can produce a high of 20 units per day. This expectation of outcome is known as 'first level' outcome.
- **Instrumentality** This factor relates to a person's belief and expectation that his performance will lead to a particular desired reward. It is the degree of association of first level outcome of a particular effort to the second level outcome—that is the ultimate reward. For example, working hard may lead to better performance—which is the first level outcome, and it may result in a reward such as salary increase or promotion or both—which is the second level outcome. If a person believes that his high performance will not be recognized or lead to expected and desired rewards, he will not be motivated to work hard for better output. Similarly, a professor may work hard to improve upon his techniques of teaching and communication (first level outcome) in order to get promotion and tenure (second level outcome). Accordingly, instrumentality is the performance-reward relationship.

- **Valence** Valence is the value a person assigns to his desired reward. He may not be willing to work hard to improve performance if the reward for such improved performance is not what he desires. It is not the actual value of the reward but the perceptual value of the reward in the mind of the worker that is important. A person may be motivated to work hard not to get a pay raise but to get recognition and status. Another person may be more interested in job security than status.

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8.3.5 McGregor's Theory X and Theory Y

Douglas McGregor (1906–64) was a professor of industrial management at Massachusetts Institute of Technology (MIT) for most part of his career. His contribution to management thought lies in his proposal that a manager's assumptions about the role of employees determines his behaviour towards them. According to him, the classical organization - with its highly specialized jobs, centralized decision-making and communication from top downwards through the chain of command was not just a product of the need for productivity and efficiency, but instead it was a reflection of certain basic managerial assumptions about human nature. These assumptions, that McGregor somewhat arbitrarily classified were designated as Theory X. Theory X identified the classical approach to management based upon the ideas generated in the late 1800s and early 1900s, and was primarily based upon the assumption about economic rationality of all employees. This evolved around the classical assumption of Adam Smith that people are motivated by economic incentives and they will rationally consider opportunities that provide for them the greatest economic gain. To the classical thinkers, an efficiently designed job, efficiency centred organization and proper monetary incentives to workers were the proper tools of motivation.

This approach was effective because it was a product of its times. In the late nineteenth century and early twentieth century, technology change was relatively slow and predictable, labour was abundant, competitors were known and productivity was the main focus.

This approach was based on the following assumptions.

Theory X Assumptions

1. Most people dislike work and avoid it whenever possible.
2. They need to be directed, controlled and threatened with punishment in order to move them to work and achieve organizational goals.
3. An average person is lazy, shuns responsibility, prefers to be directed, has little ambition and is only concerned with his own security.
4. Most people avoid leading and want to be led and supervised. They are unwilling to accept responsibility.

McGregor believed that managers who hold Theory X assumptions are likely to treat workers accordingly. These managers practice an autocratic

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management style and may use the threat of punishment to induce employee productivity. The communication is primarily directed downwards and the environment is characterized by minimal manager-employee interaction.

In contrast, Theory Y emphasizes management through employee input and delegation of authority. According to Theory Y, managers make the following assumptions.

Theory Y Assumptions

1. Work is natural to most people and they enjoy the physical and mental effort involved in working, similar to rest or play.
2. Commitment to goals and objectives of the organization is also a natural state of behaviour for most individuals.
3. They will exercise self direction and self control in pursuit and achievement of organizational goals.
4. Commitment to goals and objectives is a function of rewards available, especially the rewards of appreciation and recognition.
5. Most people have the capacity for innovation and creativity for solving organizational problems.
6. Many individuals seek leadership roles in preference to the security of being led.

Managers who hold Theory Y assumptions treat their workers as responsible persons and give them more latitude in performing their tasks. Communication is multidimensional and managers interact frequently with employees. These managers encourage innovation and creativity, minimize the use of supervision and controls and redesign the work to make it more interesting and satisfying with regard to higher level needs of workers such as self-esteem and self-actualization. They integrate individual goals and organizational goals so that with commitment and dedication, both goals are achieved at the same time.

Compared to Theory X, Theory Y has the greater potential to develop positive job relationships and motivate employee performance. It must be understood, however, that in some situations where workers do require close supervision and greater controls, Theory X assumptions are more effective in achieving organizational goals.

8.3.6 McClelland's Theory of Needs

Since the lower level needs in Maslow's model are generally satisfied by the business, societal and legal systems, they are no longer strong motivators. Studies conducted by Harvard psychologist David McClelland concluded that from the organizational behaviour point of view, the most prominent need is the 'achievement motive' and affiliation. The primary motive is the 'achievement motive' and is defined as a 'desire to succeed in competitive situations based upon an established or perceived standard of excellence.'

Individuals with a strong ‘need for achievement’ (N-Ach), ask for, accept and perform well in challenging tasks, that require creativity, ingenuity and hard work. They are constantly preoccupied with a desire for improvement and look for situations in which successful outcomes are directly correlated with their efforts so that they can claim credit for success. They take moderate and calculated risks and prefer to get quick and precise feedback on their performance. They set more difficult but achievable goals for themselves because success with easily achievable goals hardly provides a sense of achievement. They desire greater pleasure and excitement from solving a complex problem than from financial incentives or simple praise.

The “need for power” (N-Pow) is the desire to affect and control the behaviour of other people and to manipulate the surroundings. Power motivation, when applied positively, results in successful managers and leaders who prefer democratic style of leadership. Power motivation, applied negatively, tends to create arrogant autocratic leadership. The individuals who are high in (N-Pow) are described by Litwin and Stringer as follows.

“They usually attempt to influence others directly—by making suggestions, by giving their opinions and evaluations and by trying to talk others into things. They seek positions at leadership in group activities, whether they become leaders or are seen only as “dominating individuals” depends on other attributes such as ability and sociability. They are usually verbally fluent, often talkative, sometimes argumentative.”

These individuals tend to be superior performers and show high degree of loyalty to the organization. They are more mature, with a strong sense of justice and equity and are willing to sacrifice their own self interests for the sake of organizational interests.

The “need for affiliation” (N-AFFil) is related to social needs and reflects a desire for friendly and warm relationships with others. Individuals tend to seek affiliation with others who have similar beliefs, backgrounds and outlook on life. This results in the formation of informal groups and informal organizations. It is evident in social circles also that people mix with people of their own kind. Individuals with high “n Aff” tend to get involved in jobs that require a high amount of interpersonal contacts and relations such as jobs in teaching and public relations. From organizational behaviour point of view, these individuals are highly motivated to perform better in situations where personal support and approval are tied to performance.

8.3.7 William Ouchi’s Theory Z

Theory Z is the name given to the ‘Japanese Management’ style that popularized during the Asian economic boom of the 1980s. **William Ouchi**, developed the theory Z in his book *‘Theory Z: How American Management can Meet the Japanese Challenge’* published in 1981.

According to Dr William Ouchi, Theory Z management tends to promote stable employment, high productivity, and high employee morale and satisfaction.

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Ouchi believes that the people are innately self motivated to do their work, and are also loyal towards the company. They work for the success and progress of the organization. The managers, who follow theory Z, must trust their workers and the sound decisions (if beneficial) given by them.

The conflict may occur within the workers of Theory Z as it involves a great deal of discussion, collaboration, and negotiation; but the workers themselves solve the conflicts, while the managers play a ‘third party arbitrator’ role. Theory Z emphasizes more frequent performance appraisals, but slower promotions.

Ouchi’s theory Z makes certain assumptions about the workers. The assumption that the workers build cooperative and intimate working relationships with the organization they work for and with, and also with the people who work for them. Theory Z workers need to be supported by the company, and highly value a working environment where family, cultures and traditions, and social institutions are given equal importance as the work itself. These types of workers have a very well developed sense of order, discipline, and moral obligation to work hard, and also a sense of cohesion with their fellow workers.

Characteristics of the Theory Z

- Long-term employment
- Collective responsibility
- Implicit, informal control with explicit, formalized measures
- Collective decision-making
- Slow evaluation and promotion
- Moderately specialized careers
- Concern for a total person, including their family

Finally, Theory Z workers can be trusted to do their jobs to their utmost ability, and that management must have a high degree of confidence in its workers in this type of participative management. For this, employees must be very knowledgeable about the various issues of the company, as well as they should have the ability and competence to make wise decisions.

Though several similarities and differences surround the ideas of McGregor and Ouchi, but the most obvious comparison is that they both deal with perceptions and assumptions about the worker. Ouchi’s Theory Z explains that how the workers might perceive management. Thus work motivation is one of the key areas of organizational psychology and the motivation and organization theory is described as an interdisciplinary study that examines the structure and functioning of organizations and the behaviour of the people within the organizations.

8.3.8 Porter-Lawler Model

The Porter Lawler model was developed by Lyman W. Porter and Edward E. Lawler as a complete version of motivation depending upon the expectancy theory.

The Porter Lawler model says that the levels of motivation are based more on the value that individuals place on the reward.

The actual performance in a job is mainly determined by the effort spent by an individual to perform a particular job. It is also affected by the ability of an individual to do the job and also by perception that an individual has about the required task. Therefore, performance is the responsible factor that leads to intrinsic as well as extrinsic rewards. These provides job lead to satisfaction to an individual. Hence, satisfaction of the individual depends upon the fairness of the reward.

The porter lawler model is based on the Vroom's model but it is more complex in a number of ways. According to this model, increased effort does not automatically lead to improved performance because individuals may not possess the necessary abilities needed to achieve high levels of performance. It is also because they may have an inadequate or wrong perception of how to perform the necessary tasks. Individuals may exert considerably without understanding how to direct effort effectively. This does not lead him to good performance but rather gives less output than expected.

8.3.9 Adam's Equity Theory of Motivation

Equity theory is based on the assumption of some researchers that one of the most widely assumed sources of job dissatisfaction is the feeling of the employees that they are not being treated fairly by the management or the organizational system. For example, let us assume that there are two professors up for promotion and both of them have similar backgrounds and academic achievement. If one gets the promotion and the other does not, the professor being denied the promotion will feel that the politics of the system was not just and that he was unfairly treated. This would result in job dissatisfaction to some degree. This dissatisfaction is a result of comparison with the professor who got the promotion. Suppose that neither one of the two professors got the promotion and one of them felt that he deserved it. This would also be a cause for job dissatisfaction.

Hence, 'Equity theory' has two elements, First, the workers want to get a fair reward for their efforts. Second, you would compare your rewards with the rewards of others who put in similar efforts.

Equity theory is based upon the recognition that employees are not only concerned with the rewards that they receive for their efforts but also with the relationship of their rewards with the rewards received by others. They make judgments of equity or inequity between their input and outcomes and the inputs and outcomes of others. For comparison purposes, the inputs can be considered as efforts, skills, education, experience, competence and outputs can be considered as salary levels, recognition, raises, status and other privileges. When such inequity exists, whether it is perceived or real, employees will feel uneasy about it and will tend to take steps that will reduce or eliminate this inequity. These steps may result in lower or higher productivity, improved or reduced quality of output, increased

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dedication and loyalty or uncaring attitudes, protests against inequity and voluntary resignations.

Equity theory proposes that under-rewarded employees tend to produce less or produce products of inferior quality than equitably rewarded employees, and over-rewarded employees tend to produce more or product of higher quality than equitably rewarded employees.

It must be realized that inequity exists when people are either ‘underpaid’ or ‘overpaid’ for similar efforts. However, they are more willing to accept overpayment and justify such overpayment rather than take steps to reduce this inequity.

As formulated by Adams, ‘the equity theory comprises the following postulates:

- Perceived inequity creates a feeling of resentment and tension within individuals.
- The extent of this tension reflects the magnitude and type of inequity.
- Individuals will be motivated to take steps to reduce this tension.
- The greater the extent of perceived inequity, the greater is the strength of such motivation.

There are a number of steps that a person can take in order to reduce the tension caused by perceived inequity. It must be understood that inequity exists only in the perception of the individual. It may or may not be real. If people are satisfied in spite of any inequity that might exist or if they can justify inequity by one way or another then in their own perceptions, such inequity does not exist.

Check Your Progress

3. What are deficiency needs?
4. Which factors of Herzberg’s model satisfy the first three levels of Maslow’s model of physiological needs?
5. State the underlying assumption of Vroom’s expectancy model.
6. Mention the name given to the ‘Japanese Management’ style that popularized during the Asian economic boom of the 1980s?

8.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The concept of motivation has 3 basic characteristics: effort, persistence and direction.
2. Some of the behavioural characteristics that account for enormous diversity in human behaviour, are a product of our exposure to various situations

both within the family and the outside environment. These characteristics are learned characteristics, where learning is defined as a 'relatively permanent change in behaviour resulting from interactions with the environment'.

3. The first three levels of needs at the bottom of the Maslow's need hierarchy are known as 'deficiency' needs and they must be satisfied in order to ensure the individual's very existence and security and make him fundamentally comfortable.
4. The hygiene factors in Herzberg's model satisfy the first three levels of Maslow's model of physiological needs, i.e. security, safety and social needs.
5. The underlying assumption of the Vroom's expectancy model is that a man is a rational being and will try to maximize his perceived value of such rewards. He will choose an alternative that would give him the most benefit.
6. **Theory Z** is the name given to the 'Japanese Management' style that popularized during the Asian economic boom of the 1980s. **William Ouchi**, developed the theory Z in his book '*Theory Z: How American Management can Meet the Japanese Challenge*' published in 1981.

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8.5 SUMMARY

- People's work performance depends upon their ability to do their assigned work as well as their 'will' to do so. Stronger 'will' reflects stronger motivation to achieve a goal. The word motivation is derived from motive, which is a need or a desire requiring movement towards the goal of achievement of such need and desire. It is an action, movement or behaviour that must fulfill the unsatisfied need.
- The content theories of work motivation explain the nature of motivation in terms of types of need that people experience. The concept of motivation is explained by the fact that people have certain fundamental needs, both physiological and psychological in nature and that they are motivated to engage in activities that would satisfy these needs.
- Abraham Maslow built the needs into an hierarchy in order of priority. The most fundamental needs are the physiological needs such as food, clothing, shelter and so on. Then in order came the needs for safety and security, as love and affection, need for respect and self-esteem and finally the self-actualization need that is considered to be the ultimate fulfillment of life. Management can motivate workers by identifying their need level and taking steps to fulfill these needs.
- ERG theory, developed by Clayton Alerter, condenses the five needs proposed by Maslow into three and ERG stands for Existence, Relatedness and Growth. The existence needs are roughly comparable to physiological and safety needs of Maslow's model and are satisfied primarily by material

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incentives. Relatedness needs roughly correspond to social and self-esteem needs and finally, the growth needs are similar to self-actualization needs.

- McClelland's theory of needs is based upon the premise that lower level needs in Maslow's model are generally taken care of by business, societal and legal systems and hence are no longer motivators. According to this theory, the most prominent need from organizational behaviour point of view is the need for achievement, power and affiliation. The individuals with a high degree of need for achievement, power and affiliation are highly motivated to move towards fulfilling these needs at the highest levels.
- Herzberg's two-factor theory classifies all the work related factors into two categories. First category contains factors that are known as hygiene factors. These factors prevent dissatisfaction but do not motivate. Some of these factors are wages and benefits, working conditions, organizational rules and policies, cordial relations with peers and superiors, job security and so on.
- The process theories of motivation put forth hypothesis as to how motivation occurs and identify some of the variables that induce motivation. One such theory is Vroom's expectancy model. This model is based upon the belief that motivation is determined by the nature of reward people expect to get as a result of their job performance. The nature of reward refers to the perceived value that the employee assigns to such a reward. This means that a person will be willing to work hard if he believes that such hard work will lead to better performance and such performance will lead to reward that the employee values.
- The equity theory. This theory suggests that employees will be motivated to work hard if they sincerely believe that they are being treated by the management fairly and equitably. This means that employees are not only concerned with the reward that they receive for their efforts but also with the relationship of their rewards with the rewards received by others and this would determine the fairness of their rewards in their own minds.

8.6 KEY WORDS

- **Self-actualization needs:** This is the need to develop fully and to realize one's capacities and potentialities to the fullest extent possible, whatever these capacities and potentialities may be.
- **Expectancy:** This is a person's perception of the likelihood that a particular outcome will result from a particular behaviour or action. This likelihood is probabilistic in nature and describes the relationship between an act and its outcome.

- **Instrumentality:** This factor relates to a person's belief and expectation that his performance will lead to a particular desired reward. It is the degree of association of first level outcome of a particular effort to the second level outcome—that is the ultimate reward.
- **Valence:** Valence is the value a person assigns to his desired reward; he may not be willing to work hard to improve performance if the reward for such improved performance is not what he desires.

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8.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What is motivation?
2. Explain Theory X.
3. State the characteristics of the Theory Z.
4. Name the two important factors of Herzberg's two-factor theory.

Long Answer Questions

1. Can the negative or fear type of motivation produce lasting positive effects on behaviour and morale? Support your reason..
2. What can the management do to satisfy the various level needs of workers as shown in Maslow's model?
3. Explain in detail the ERG theory of motivation. How does it significantly differ from Maslow's model of motivation?
4. Herzberg disagrees with Maslow to the extent that while Maslow believes that the first three level needs, such as physiological, safety and social needs, are motivators, Herzberg believes these to be hygiene factors and not motivators. Which view do you agree with and why?

8.8 FURTHER READINGS

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BLOCK III
FUNCTIONS OF MANAGEMENT

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**UNIT 9 DIRECTING AND
LEADERSHIP**

Structure

- 9.0 Introduction
- 9.1 Objectives
- 9.2 Directing: Meaning, Purpose and Scope
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 - 9.3.1 Meaning
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9.0 INTRODUCTION

Direction is concerned with directing the human efforts towards organizational goal achievement. The success of these directional efforts is going to determine the satisfactory or unsatisfactory performance within the organization.

Leadership is the art of motivating and influencing subordinates to perform their duties 'willingly' and effectively to achieve the set organizational goals. It is important that the followers 'willingly' follow their leader. A true leader motivates the followers to follow and induces a belief in them that they will gain by the

policies of the leader. A dictatorship under which the subordinates have to perform would not be considered as true leadership.

Leadership can be formal, informal or situational.

Different leaders follow different styles of leadership, depending on their philosophy. They could function as autocratic leaders, democratic leaders or free-reign leaders. In this unit, we will learn about the concepts of directing, leadership styles and theories, and the functions of leaders.

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9.1 OBJECTIVES

After going through this unit, you will be able to

- Differentiate between formal and informal leadership
- Identify the characteristics of leaders
- Explain the various theories of leadership
- Understand the various leadership styles

9.2 DIRECTING: MEANING, PURPOSE AND SCOPE

The directing function is the action function that will test the managerial capability in running the organization. The satisfactory performance of workers is going to be partly dependent upon the 'directional' ability of the management, but primarily it is a function of the organizational environment. If the environment is not conducive to optimum performance, the managerial directing in itself cannot bring in the optimum results. Accordingly, favourable conditions must exist which would provide for enthusiastic coop Direction is concerned with directing the human efforts towards organizational goal achievement. The success of these directional efforts is going to determine the satisfactory or unsatisfactory performance within the organization. Direction is concerned with directing the human efforts towards organizational goal achievement. The success of these directional efforts is going to determine the satisfactory or unsatisfactory performance within the organization.

Since the purpose of directing is to make effective use of employees, it is usually initiated by the higher echelons of management. However, the employee input into directing decisions would be highly useful, thus creating an organizational climate where workers enhance the quality of working life.

9.2.1 Purpose and Scope in the Organization

The following points out the importance and purpose of directing in an organization:

- Persuasive leadership helps accomplishment of organizational goals through integrating efforts of different departments.

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- Direction through proper identification and honing of talents and skills of the subordinates inspires motivation among employees.
- Actions in an organization are initiated through direction as it not only identifies what is to be done, but also when and how.
- Good directing by the managers in an organization helps in creating a work culture in which employees do not fear but embrace change.
- Direction ensures the judicious use of resources whether human or material.
- Proper direction in an organization ensures that there is stability and the organization is on a growth trajectory.

Scope of Direction

The following points highlight the scope of direction in an organization:

- Supervision of subordinates as per the company objectives, plans, policies, programmes and schedules. Direction as a function of management is present at all the levels of the organization. It is what keeps the activities rolling in the organization.
- Leadership comes under the ambit of direction as this is what provides a gameplan for the subordinates to follow in order to achieve the targets.
- Communication is an integral function of direction as the manager must process information and transfer them to the required person in order to ensure efficient operations in the organization. The scope of work of every employee becomes clear, duplication is avoided and work done with the best quality.
- Motivation of employees in the organization is a crucial part of direction as it ensures that not only the needs of the employees are fulfilled but also their actions contribute towards the organizational goals. The manager as a director must ensure that group behaviours are positive and going in the right direction.
- Command also comes under the scope of directing in the field of management as the managers ensure that the line of authority is followed and the employees delegated work by and accountable to their superiors. An efficient chain of command ensures smooth operations.

9.3 LEADERSHIP: MEANING AND STYLES

Let's now discuss the concept of leadership in detail.

9.3.1 Meaning

Leadership is an essential component of management and plays a crucial role in managerial functions. Energetic and efficient leadership is the single feature that distinguishes between successful and unsuccessful organizations. Perchance, it

would not be an invalid presumption to affirm that the chief reason of many business leaders, although management chiefly depends on official status authority to manipulate people while leadership stems from the process of social influence. However, management is an integral component of technical as well as social processes.

It is important to have the element of willingness in the above definition. This element differentiates successful and effective leaders from the ‘common run of the managers’. Motivating and influencing people to move towards a common goal are all essential elements of management but the ‘willingness’ of the followers to be led highlights a special quality that puts a leader high above others.

9.3.2 Leadership Styles

Leadership styles can be classified according to the philosophy of the leaders. What the leader does determines how well he leads. A style of leadership is a ‘relatively enduring set of behaviour which is a characteristic of the individuals, regardless of the situation.’ Some of the more significant leadership styles are discussed as follows:

1. Autocratic or Dictatorial Leadership

Autocratic leaders keep the decision making authority and control in their own hands and assume full responsibility for all actions. They structure the entire work situation in their own way and expect the workers to follow their orders. They tolerate no deviation from their orders. The subordinates are required to implement the instructions of their leaders without question. They are entirely dependent on their leader and the output suffers in the absence of the leader.

The autocratic leadership style ranges from tough and highly dictatorial to paternalistic, depending upon whether the leader’s motivational approach is threat and punishment or appreciation and rewards. In highly autocratic situations, the subordinates develop a sense of insecurity, frustration and low morale. They are induced to avoid responsibility, initiative and innovative behaviour. The autocratic leader believes that his leadership is based upon the authority conferred upon him by some source such as his position, knowledge, strength or the power to punish and reward.

2. Participative or Democratic Leadership

In this type of leadership, the subordinates are consulted and their feedback is taken into the decision-making process. The leader’s job is primarily of a moderator, even though he makes the final decision and he alone is responsible for the results. The management recognizes that the subordinates are equipped with talents and abilities and that they are capable of bringing new ideas and new methodologies to the work setting. Thus, the group members are encouraged to demonstrate initiative and creativity and take intelligent interest in setting plans and policies and have maximum participation in decision making. This ensures better management-labour

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relations, higher morale and greater job satisfaction. This type of leadership is specially effective when the workforce is experienced and dedicated and is able to work independently with least directives, thereby developing a climate which is conducive to the growth and development of the organization as well as the individual's personality.

3. Laissez-Faire or Free-Reign Leadership

In this type of leadership, the leader is just a figure-head and does not give any direction. He delegates the authority to subordinates so that they must plan, motivate, control and otherwise be responsible for their own actions. The leader acts principally as a liaison between the group and the outside elements and supplies necessary materials and information to the group members. He lets the subordinates develop their own techniques for accomplishing goals within the generalized organizational policies and objectives. The leader participates very little and instead of leading and directing, he becomes just one of the members. He does not attempt to intervene or regulate or control and there is complete group or individual freedom in decision-making. This type of leadership is highly effective when the group members are highly intelligent and are fully aware of their roles and responsibilities and have the knowledge and skills to accomplish these tasks without direct supervision.

This type of leadership is evident in research laboratories where the scientists are fairly free to conduct their research and make their decisions. Similarly, in a university or a college, the chairperson of a division does not interfere in the professor's teaching method, but only assigns the courses to be taught. From then onwards, the professors are very much their own leaders.

Check Your Progress

1. Why is directing usually initiated by the higher echelons of management?
2. Which element in the definition of leadership differentiates successful and effective leaders from the 'common run of the managers'?
3. When is participative leadership especially effective?

9.4 LEADERSHIP THEORIES

Over the last eighty years, a number of different theories and approaches to studying leadership have been developed. Prior to 1945, the most common approach to the study of leadership concentrated on leadership traits. It was thought that leaders possessed and exhibited some unique set of qualities that distinguished them from their peers. Because this line of investigation did not produce consistent outcomes, research centered on other theories such as behavioural and situational approaches to leadership identification. These theories are examined in more detail as follows.

9.4.1 Trait Theory

The Trait Theory rests on the traditional approach that describes leadership in terms of certain personal and special characteristics that are not acquired by knowledge and training but are considered inherited. This theory emphasizes that leaders are born and not made, and that leadership is a function of inborn traits. Some of these inborn traits are considered to be intelligence, understanding, perception, high motivation, socio-economic status, initiative, maturity, need for self-actualization, self-assurance and understanding of interpersonal human relations. In the earlier studies, the existence of these traits became a measure of leadership. The theory holds that possession of these traits permits certain individuals to gain a position of leadership. Since all individuals do not have these qualities, only those who have them would be considered potential leaders. It was further believed that training individuals to assume leadership roles was not possible and such training would help only to those who possessed these inborn leadership traits to start with.

The trait theory of leadership has suffered from lack of conclusiveness and over-simplifications. As Eugene E. Jennings concluded, 'fifty years of study have failed to produce one personality trait or a set of qualities that can be used to discriminate leaders and non-leaders.' The old assumption that 'leaders are born' has never been substantiated in several decades of research. The critics have charged that the theory focuses attention only on the leader and disregards the dynamics of the leadership process. Also the theory ignores the situational characteristics which may result in the emergence of a leader.

The trait theory approach has been criticized as lacking predictability. There are probably no personality traits that consistently distinguish the leader from his followers. According to B. Solomon,

History is replete with non-trained, non-academic Fords, Edisons and Carnegies who could not even claim a grammar school education, yet managed to become leaders whose influences was felt around the globe. As for appearance of robust health, need we mention more than the delicate Gandhi or George Washington or Carver, the frail, shriveled, insignificant little negro who was one of America's greatest scientists and so many more like them. As for high ideals and fine character act, where would Hitler, Capone or Attila the Hun rate here?

Similarly, if tall people were more inclined to be leaders then how could such short people as Napoleon or the most respected prime minister of India, Lal Bahadur Shastri have risen to a high level of leadership?

9.4.2 Managerial Grid

Another aspect of the behavioural theory of leadership is represented by the managerial grid. It was developed by Robert Blake and Jane Mouton and plays an important part in managerial behaviour in organizational development. In general, behavioural scientists have separated the two primary concerns in organizations,

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namely the concern for production and concern for people. They believed that a high concern for production necessarily meant low concern for people and high consideration for workers meant tolerance for low production. However, the managerial grid model emphasized that both concerns should be integrated to achieve the objectives of the organization. It assumes that people and production factors are complementary to each other rather than mutually exclusive.

According to Rao and Narayana, the concern for production is not limited to things only, and the concern for people cannot be confined to narrow considerations of interpersonal warmth and friendliness. Production can be measured in terms of creative ideas of people that turn into useful products, processes or procedures, efficiency of workers and quality of staff and auxiliary services. Similarly, concern for people includes concern for the degree of personal commitment of complementing the work requirement assigned to each person, accountability based upon trust rather than fear or force, sense of job security and friendship with co-workers leading to a healthy working climate.

The managerial grid is built on two axes, one representing the 'people' and the other the 'task'. Both the horizontal, as well as the vertical axes are treated as scales from 1 to 9 where 1 represents the least involvement and 9 represents the most involvement, so that the coordinates (1, 1) would indicate minimum standards for worker involvement and task design, and coordinates (9, 9) would indicate maximum dedication of the workers and highly structured operations. Such an involvement would reflect upon the managerial orientation towards tasks and towards workers who are expected to perform such tasks.

The managerial grid model, however has become controversial on the basis of lack of empirical evidence supporting whether the team management style is the best management style. Even Blake and Mouton offer conceptual, rather than empirical arguments as to why the team management style should be the best style, when conditions are favourable.

9.4.3 Contingency Theories: Situation and Path-goal

All the leadership theories discussed so far attribute leadership performance on the basis of certain traits or in terms of a leader's behaviour. The contingency theories state that an analysis of leadership involves not only the individual traits and behaviour but also a focus on the situation. The leadership behaviour is used in combination with work groups contingencies to predict performance outcomes. The effectiveness of leader behaviour is contingent upon the demands imposed by the situation. The focus is on the situation in which leadership is exercised and not upon the leader. Different types of situations demand different types of leadership behaviour. Similarly, a successful leader under one set of circumstances may be a failure under a different set of circumstances. For example, Winston Churchill was considered a successful prime minister and an effective leader of England during World War II. However, he turned out to be much less successful after the War when the situation changed.

The contingency approach, known also as the situational approach defines leadership in terms of a leader's ability to handle a given situation and is based on the leader's skill in that given area.

While this approach emphasizes that external pressures and situational characteristics and not the personal traits and personality characteristics determine the emergence of successful leaders in performing a given role, it is probably a combination of both types of characteristics that sustains a leader over a long period of time. A leader is more successful when his personal traits complement the situational characteristics.

According to Szilagyi and Wallace, there are four contingency variables that influence a leader's behaviour. First, there are the characteristics of the leader himself.

These characteristics include the personality of the leader relative to his ability to respond to situational pressures as well as his previous leadership style in similar situations. The second variable relates to the characteristics of the subordinates. The subordinates are important contributors to a given operational situation. The situation will very much depend upon whether the subordinates prefer a participative style of leadership and decision making and what their motivations in this situation are. Are the subordinates motivated by the intrinsic satisfaction of performing the task well or do they expect other types of reinforcements?

The third factor involves the group characteristics. If the group is highly cohesive it will create a more cordial situation than if the group members do not get along with each other so that the leadership style will vary accordingly. The fourth situational factor relates to the organizational structure. The organizational structure is the formal system of authority, responsibility and communication within the company. Factors such as hierarchy of authority, centralized or decentralized decision-making and formal rules and regulations would affect the leader behaviour. All these factors are diagrammatically shown as follows:

Contingency theories of leadership attempt to account systematically for any relationship between situational factors and leadership effectiveness. There are four such main theories that have been proposed. We will discuss two of these in this section.

Fiedler's Contingency Theory (Situation Theory)

Fred Fiedler was one of the earliest proponents of a leadership model that explicitly accounted for situational factors. He proposed, in 1967, a theoretical explanation for interaction of three situational variables which affect the group performances. These three variables are (1) leader-member relations, (2) task structure and (3) leader's positional power. These variables determine the extent of the situational control that the leader has.

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Leader-member relations—This relationship reflects the extent to which the followers have confidence and trust in their leader and his leadership ability. A situation in which the leader–member relations are relatively good with mutual trust and open communications is much easier to manage than a situation where relations are strained.

Task structure—It measures the extent to which the tasks performed by subordinates are specified and structured. It involves clarity of goals, as well as clearly established and defined number of steps required to complete the task. When the tasks are well structured and the rules, policies and procedures clearly written and understood, then there is little ambiguity as to how the job is to be accomplished.

Position power—This refers to the legitimate power inherent in the leader’s organizational position. It refers to the degree to which a leader can make decisions about allocation of resources, rewards and sanctions. Low position power indicates limited authority. A high position power gives the leader the right to take charge and control the situation as it develops.

The most favourable situation for the leader then would be when the leader group relations are positive, the task is highly structured and the leader has substantial power and authority to exert influences on the subordinates. The leadership model proposed by Fiedler measures the leadership orientation and effectiveness with a differential type of attitude scale which measures the leader’s esteem for the ‘least preferred co-worker’ or LPC as to whether or not the person the leader least likes to work with is viewed in a positive or negative way. For example, if a leader would describe his least preferred co-worker in a favourable way with regard to such factors as friendliness, warmth, helpfulness, enthusiasm, and so on, then he would be considered high on LPC scale. In general, a high LPC score leader is more relationship-oriented and a low LPC score leader is more task-oriented.

A high LPC leader is most effective when the situation is reasonably stable and requires only a moderate degree of control. The effectiveness stems from motivating group members to perform better and be dedicated towards goal achievement. A low LPC leader would exert pressure on the subordinates to work harder and produce more. These pressures would be directed through organizational rules, policies and expectations.

One of the basic conclusions that can be drawn from Fiedler’s contingency model is that a particular leadership style may be more effective in one situation and the same style may be totally ineffective in another situation. Also, since a leadership style is more difficult to change, the situation should be changed to suit the leadership style. The situation can be made more favourable by enhancing relations with subordinates, by changing the task structure or by gaining more formal power that can be used to induce a more conducive work setting based upon personal leadership style. Fiedler and his associates also developed a leadership training programme known as LEADER MATCH, giving the manager

some means and authority to change the situation so that it becomes more compatible with the leader's LPC orientation. Studies conducted by Strube Garcia have shown strong support for Fiedler's approach.

Path-Goal Theory

The path-goal theory of leadership, as proposed by House and Mitchell, suggests that the effectiveness of leaders can be measured from their impact on their subordinates' motivation, their ability to perform effectively and their satisfaction with their tasks. This model emphasizes that the leader behaviour be such as to compliment the group work setting and aspirations so that it increases the subordinate goal achievement level and clarifies the paths to these goals. This approach is based upon the expectancy theory of motivation and reflects the worker's beliefs that effort would lead to successful outcomes. The leader sets up a clear path and clear guidelines through which the subordinates can achieve both personal as well as work-related goals and assists them in achieving these goals. This will make the leader behaviour acceptable and satisfying to subordinates, since they see the behaviour of the leader as an immediate source of satisfaction or as a source of obtaining future satisfaction.

This approach is largely derived from the path-goal approach to motivation. To motivate workers, the leader should:

- (a) Recognize subordinate needs for outcomes over which the leader has some control
- (b) Arrange for appropriate rewards to his subordinates for goal achievement
- (c) Help subordinates in clearly establishing their expectations
- (d) Demolish, as far as possible, the barriers in their path of goal achievement
- (e) Increase opportunities for personal satisfaction which are contingent upon satisfactory performance

The path-goal model takes into consideration the different types of leadership behaviour. There are four such types of leadership styles that would support this approach depending upon the nature of the situation.

These are: Directive, supportive, achievement-oriented and participative.

Contingency Factors

The specific leadership style that is most effective is contingent upon two situational factors. These factors are as follows:

- **Characteristics of subordinates**—The leadership style selected by the leader should be compatible with the ability, experience, needs, motivation and personalities of the followers. Subordinates who perceive their own ability to be high would not appreciate a directive approach and would be

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highly motivated by a supportive leadership style. People who believe that what happens to them is a result of their own behaviour are more satisfied with a participative leadership style and people who believe that what happens to them is a matter of chance or luck, prefer a directive style of leadership.

- **Environmental factors**—The environmental factors are those which are beyond the control of the subordinates but are significant in affecting their satisfaction or on their ability to perform effectively. These include the structure of the work tasks, openness of communication, extent of feedback provided, formal authority system of the organization and the nature of interaction within the work group. If the task is one of a routine nature and well structured, and the organizational authority system is formal and the group norms are clear and respected, then a directive leadership style will be unnecessary. Additionally, such a leadership will be motivational which helps subordinates cope with the environmental uncertainties, environmental sources of threats and frustration and remove any other barriers to performance and also make sure that subordinates' satisfactory performance is adequately rewarded.

9.4.4 Transactional Leadership

Transactional leadership is more about 'managing' by helping organizations achieve their objectives more efficiently and by linking job performance to valued rewards. It is a transaction between work and reward. It involves leader behaviour that improves employee performance and satisfaction. Such a behaviour improves organizational efficiency. Transactional leaders are influential because it is in the best interests of the subordinates to do what the leader wants them to do. It is also good for such leaders because they get credit for improving the performance and efficiency of the organization.

With this kind of leadership, the leader tries to obtain an agreement from the followers on what must be done and what the pay-off will be for the people doing the work. An example of this type of transaction is the relationship between a parent and his/her child. The parent negotiates with the child as to how much television the child can watch once the homework is completed. Similarly, a head of the department can negotiate with a professor about the number and quality of publications he or she needs in order to receive promotion. It is similar to any other transaction in business and life. It is like 'you scratch my back and I will scratch yours'.

Some scholars believe that the transactional style is a prescription for mediocrity since the leader is only interested in meeting the set goals and does not take risks for progress.

In addition to the work-reward relationship, another aspect of transactional behaviour is management by exception. Management by exception could be passive or active. Passive management by exception includes contingent reward behaviour

which involves clarification of work required to obtain preset rewards and the use of incentive and contingent rewards to influence motivation. It also includes contingent punishment and other corrective actions in response to observed deviations from prescribed and acceptable performance standards. Active management by exception, on the other hand, is defined in terms of looking for mistakes and enforcing rules to avoid such mistakes.

Another characteristic of transactional leadership involves a laissez-faire attitude. Here, the leader is just a figurehead and does not give any direction and does not make any decisions. He delegates the authority to subordinates and acts only as a liaison between them and the outside environment. He thus abdicates responsibilities and does not take part in directing or motivating subordinates. The subordinates are free to plan and design their own activities. In a way, it is a transaction for the subordinates in return for freedom to operate; and they are expected to be innovative and creative.

9.4.5 Transformational Leadership

Transformational leaders are characterized by idealized leadership, intellectual stimulation and individualized consideration on the part of the leader. A transformational leader changes the situation for the better, develops followers into leaders and inspires people by providing an energizing vision and high ideal for moral and ethical conduct. Such a leadership style is very close to the charismatic leadership style in terms of idealized influence and individualized consideration. A classic example of transformational leadership is that of Mahatma Gandhi, who raised the hopes, aspirations and demands of millions of people in India. Similarly, Guru Gobind Singh, the tenth Guru of the Sikhs transformed his followers from passive downtrodden people to saint-soldiers, who fought and tore apart the very foundations of the Mughal Empire.

Studies have shown that effective transformational leaders share the following characteristics:

- They identify themselves as change agents for the better.
- They are courageous and take calculated risks.
- They have faith in people and their abilities.
- They are value driven in terms of ethics and morality.
- They are visionaries and see the world beyond tomorrow.
- They do not use power for personal gain.
- They are sensitive to the needs of their followers.

Four factors in transformational leadership are as follows: idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.

In essence, transformational leadership produces greater positive effects than transactional leadership. While transactional leadership results in expected outcomes, transformational leadership results in performance that goes well beyond

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what is expected. The followers become motivated to transcend their own self-interest for the good of the organization.

9.4.6 Tactical Leadership Style

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Tactical leadership is an art that requires personal attributes for inspiring and motivating others toward a common objective. It is the concept of taking one's leadership experiences and making effective use of them in a workplace setting. It involves the application of new ideas for solving old problems. A tactical leader needs to possess the vision to see beyond the dilemmas they are currently facing. The tactical leadership skill refers to the ability of a leader to use past experiences for understanding what specific actions should be taken to achieve the goals of the organization. The tactical leaders make use of the skills they have acquired to train and prepare their subordinates to achieve the organizational goals and objectives.

Seven keys for successful tactical leadership

A successful tactical leader needs to emphasize the following seven points:

1. Empowerment of subordinates so that they become creative
2. Establishment of standards that give the subordinates the goals to reach
3. Formulation of challenging and enlightening tasks
4. Identification and development of people with leadership potential
5. Recognition to unit and individual successes
6. Encouragement to and facilitation of professional growth
7. Development and training of future leaders

Check Your Progress

4. What is the emphasis of the Trait Theory?
5. Mention the two axes of managerial grid.
6. What is tactical leadership skill?

9.5 LEADERS: AN OVERVIEW

In this section, we will learn about the types of leaders, their nature, functions and significance and how they differ from managers.

9.5.1 Type And Nature

Leadership can be formal or informal. The formal leadership occurs when a person is appointed or elected as an authority figure. For example, anyone who is appointed to the job of a manager is also given the authority to exercise formal leadership in relationship to his subordinates. Similarly, a formally elected leader of a country or

a state acquires the authority of leadership and in giving direction to the country or state.

The unofficial leadership surfaces at the time when an individual uses interpersonal manipulation in a group without being officially designated any such responsibility or authority. Such leaders emerge in particular circumstances, due to their appeal, intellect, expertise or other characteristics and whom others approach for advice, direction and guidance. Religious and civic leaders fit into this category. Successful managers who exercise their given authority in a formal way are also capable of exercising informal leadership relationships with people both within as well as outside the organization.

Nature of Leaders

Leadership is an intangible quality and its effectiveness can best be judged by the behaviour and attitudes of followers. Even though, personal backgrounds and personalities differ widely, some of the factors such as education and socio-economic status are poor indicators of judgments of successful leaders. However, some behavioural characteristics may be common to most of the successful and effective leaders. Some of these characteristics are:

- Ability to inspire others
- Problem-solving skills
- Emotional maturity
- Ability to understand human behaviour
- Verbal assertiveness
- Willingness to take risks
- Dedication to organizational goals
- Skill in the art of compromise

9.5.2 Functions

A formal leader cannot function without the authority and the power to make decisions and take actions. Some of the functions of the formal leaders that require the power and authority to perform are:

- Setting of organizational goals within constraints of internal needs and external pressures.
- Integrating the activities of his group and developing its team spirit and cohesiveness.
- Serving as a representative of group members and an official contact with other parts of the organization and facilitate group interaction.
- Giving out rewards and punishments or recommendations.
- Serves as a father figure and sometimes has a major impact on the norms, beliefs and values of the group.

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- He is instrumental in resolving internal conflicts by bringing about a balance among conflicting interests.
- Serving as a model of behaviour for other members. These functions can only be exercised with a power base.

9.5.3 Significance

The following points highlight the importance of leaders in management:

- It leads to better performance in the organization as higher productivity is maintained through the thorough and just planning of the leader.
- Leaders increase the motivation levels of the employees in the organization by devising of ways to correct a negative organizational climate, thinking of training and development and monetary incentives for the employees.
- Leadership aids the delegation of work and its supervision. Mere authority alone may not deliver the same results as an influential attitude of a leader enforcing the directions.
- Leaders act as role models in the organization projecting ideal professional values which may be emulated by the subordinates who look up to such leaders. Thereby, leaders assist to push the organizational values on to the employees in a much practical and positive manners.
- Leaders lead the way in the organization, initiating actions and taking ownership of new activities. By sharing their experience with the subordinates, the leaders assist them to be more adaptive to positive changes that might come in the company.

9.5.4 Barriers to Leadership

Let's have a look at the barriers in the way of leadership in an organization:

- **Lack of skills:** Some leaders which are present in the organization may not have the requisite skills of imparting their knowledge to the employees, while others may not have the skills in need as per the changes in the organizational climate. It is also possible that certain skills are outdated.
- **Lack of time:** Many times in an organization, the leaders assume a high and responsible position and this means that they have too much on their plate to set aside another time to groom or train their subordinates.
- **Lack of interest:** It is frequently noted in organizations, that there are leaders with gold mine of knowledge but they are not eager to share them. They might not consider teaching a part of their job and think it to be under the ambit of another department like HR for example.
- **Lack of accountability:** It is very common to note that leaders in organizations are not bound by code of conduct which oversees their lessons to the subordinates. This may result in poor supervision and training as

there is no accountability of the leaders and so they might use their discretion and not follow a standard.

- **Lack of infrastructure:** In an organization, leaders might be eager to share their knowledge with their juniors, but they might not have the required tools and infrastructural facilities which makes the process smooth. In such cases, the leaders might become disinterested.
- **Lack of information:** Another barrier to leadership in an organization may be that the leaders are really clear as to their scope of the job, the benefits it might make to their careers or what skills are going to be in demand in the future. This lack of information make disincentivize the leaders to practice leadership in the organization.

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9.5.5 Political and Ethical Leadership

Power and authority used in the line of duty is not only ethical but is also accepted by all who are affected by it. Thus such power is considered to be non-political in use when it remains within the boundaries of formal authority, organizational policies and procedures and when it is directed towards ends that are sanctioned by the organization. It is either the misuse of power for personal benefit or the power that violates the codes of organizational conduct that it can be considered as political requiring consideration of ethical standards. Some of the factors that differentiate between political behaviour and non-political behaviour are enumerated by Joseph F. Byrnes²² in the form of True and False questions.

Velasquez, Moberg and Cavanagh have made extensive studies regarding ethics and politics and have provided a way of looking at possible political behaviours from an ethical perspective. They have presented three types of criteria for evaluating the ethics of organizational politics and in general all these criteria must be satisfied in order for political behaviour to be considered ethical. These criteria are:

- **Criterion of utility:** In this approach, the judgment about the morality of an act is made on the basis of the degree of happiness it provides to the society as a whole. Moral acts are those that produce the greatest good for the greatest number of people. The behaviour would be considered less than ethical if it does not result in the optimization of satisfaction of most people.
- **Criterion of rights:** All human being have certain basic and fundamental rights that need to be protected and respected. The rights most likely to be violated by organizational politics are:
 - o *The right of free consent:* All people should be treated as they freely consent to be treated.
 - o *The right of privacy:* Every human being has a right to choose his own life style outside of working hours including the right to deny access to information regarding his private life.

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- o *The right to freedom of conscience:* It is the right to refuse to carry out any instructions that violate a person's moral or ethical standards or religious beliefs to which he adheres.
- o *The right to free speech:* It is the right to speak freely about any and all issues including the right to criticise others regarding ethical, legal and righteous grounds as long as it does not infringe upon the rights of the others.
- o *The right of due process:* Every one has a right to have a fair hearing of any complaints or issues that violate a person's rights.
- **Criterion of justice** All people have a right to be treated equally and equitably relative to their responsibilities and contributions. All administrative rules and regulations should be administered fairly for all and no person should be subjected to arbitrary decisions and actions.

These criteria refer to an ideal state and are often difficult to apply because adequate and correct information of a given situation is not always available. Some of these criteria are sufficiently ambiguous so that a clear cut interpretation is not feasible. The criterion of rights is probably the most consistently usable. That is, perhaps one reason as to why unethical political behaviour works so often and people who use such behaviour can justify it by their own reasoning. According to Gellerman,²⁴ people use four rationalizations in order to justify unethical actions. These are:

1. Individuals feels that a particular behaviour is not really illegal and hence can be considered as moral.
2. The action was taken with a view of best interests of the organization.
3. It does not matter as long as the action is not objected to.
4. It appears that action demonstrates loyalty to the superiors or to the organization.

All these rationalizations are weak and do not justify any action that may be legal but ethically questionable. Loyalty to moral principles is more important than loyalty to boss or the organization. Accordingly, it must be clearly understood that while some political maneuverability is unavoidable in any organizational climate, ethical considerations become very helpful to all individuals in the long run.

9.5.6 Leaders Versus Managers

Although the terms managers and leaders are often used interchangeably in management literature, there are some inherent differences between management and leadership. Managers perform several administrative functions in addition to leadership, such as planning, organizing and controlling. Leadership involves vision, motivation, setting a direction and inspiring people and driving change within the organization. Management and leadership are conceptually independent of each other. Many companies start with a strong leadership but eventually fail because leaders lack the managerial skills. Companies have high rate of success when

leadership skills and management skills complement each other. The following attributes of leaders also distinguish them from managers.

1. **Leader have followers.** While employees may comply with manager's directives, such compliance may be done out of duty rather than commitment. Motivating and influencing people to move towards a common goal are all essential elements of management, but the willingness and the enthusiasm of the followers to be led highlights a special quality that puts a leader high above others.
2. **Leaders have emotional appeal.** Abraham Zaleznik points out differences in our expectations of managers and leaders. Managers are expected to be rational decision makers while leaders are expected to be charismatic, exciting, and visionary. Leaders can inspire people and bring about a behavioural change.
3. **Leaders meet the needs of followers.** While managers are expected to be more concerned with attaining organizational goals, leaders are expected to be more sensitive to the needs of the followers.

The following table shows some of the key elements that identify the differences between managers and leaders

Leaders	Managers
<ul style="list-style-type: none"> • Innovate • Develop • Inspire • Originate • Change the status quo 	<ul style="list-style-type: none"> • Administer • Maintain • Control • Imitate • Accept the status quo.

While there are some conceptual differences between management and leadership, they are not mutually exclusive. Good managers can be bad leaders and bad managers can be good leaders but there are many good leaders who are also good managers.

Check Your Progress

7. When does unofficial leadership surface in an organization?
8. Compare leaders and managers in terms of meeting the needs of followers.

9.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Since the purpose of directing is to make effective use of employees, it is usually initiated by the higher echelons of management.

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2. It is important to have the element of willingness in the above definition. This element differentiates successful and effective leaders from the ‘common run of the managers’.
3. Participative leadership is specially effective when the workforce is experienced and dedicated and is able to work independently with least directives, thereby developing a climate which is conducive to the growth and development of the organization as well as the individual’s personality.
4. The Trait Theory emphasizes that leaders are born and not made, and that leadership is a function of inborn traits.
5. The managerial grid is built on two axes, one representing the ‘people’ and the other the ‘task’.
6. The tactical leadership skill refers to the ability of a leader to use past experiences for understanding what specific actions should be taken to achieve the goals of the organization.
7. The unofficial leadership surfaces at the time when an individual uses interpersonal manipulation in a group without being officially designated any such responsibility or authority.
8. While managers are expected to be more concerned with attaining organizational goals, leaders are expected to be more sensitive to the needs of the followers.

9.7 SUMMARY

- Direction is concerned with directing the human efforts towards organizational goal achievement. The success of these directional efforts is going to determine the satisfactory or unsatisfactory performance within the organization.
- The directing function is the action function that will test the managerial capability in running the organization. The satisfactory performance of workers is going to be partly dependent upon the ‘directional’ ability of the management, but primarily it is a function of the organizational environment.
- Leadership is an essential component of management and plays a crucial role in managerial functions. Energetic and efficient leadership is the single feature that distinguishes between successful and unsuccessful organizations.
- Leadership styles can be classified according to the philosophy of the leaders. What the leader does determines how well he leads. A style of leadership is a ‘relatively enduring set of behaviour which is a characteristic of the individuals, regardless of the situation.’
- Over the last eighty years, a number of different theories and approaches to studying leadership have been developed. Prior to 1945, the most common

approach to the study of leadership concentrated on leadership traits. It was thought that leaders possessed and exhibited some unique set of qualities that distinguished them from their peers. Because this line of investigation did not produce consistent outcomes, research centered on other theories such as behavioural and situational approaches to leadership identification.

- Leadership can be formal or informal. The formal leadership occurs when a person is appointed or elected as an authority figure.
- Leadership is an intangible quality and its effectiveness can best be judged by the behaviour and attitudes of followers. Even though, personal backgrounds and personalities differ widely, some of the factors such as education and socio-economic status are poor indicators of judgments of successful leaders.
- Management and leadership are conceptually independent of each other. Many companies start with a strong leadership but eventually fail because leaders lack the managerial skills. Companies have high rate of success when leadership skills and management skills complement each other.

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9.8 KEY WORDS

- **Direction:** In management, it refers to the act of directing the human efforts towards organizational goal achievement.
- **Leadership:** It is the art of influencing and inspiring subordinates to perform their duties willingly, competently and enthusiastically for achievement of group objectives.
- **Transactional leadership:** It refers to the leadership style which is more about 'managing' by helping organizations achieve their objectives more efficiently and by linking job performance to valued rewards. It is a transaction between work and reward.
- **Tactical leadership:** It is an art that requires personal attributes for inspiring and motivating others toward a common objective. It is the concept of taking one's leadership experiences and making effective use of them in a workplace setting.

9.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What is the purpose of directing?
2. Briefly explain the scope of directing.
3. Write a short note on Trait theory.

4. What are the barriers to leaders in an organization?
5. Write a short note on the functions of leaders.
6. Differentiate between leaders and managers.
7. What is path-goal theory?

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Long Answer Questions

1. Explain the different leadership styles in an organization.
2. What are the different types of leaders in an organization?
3. Explain the concept of managerial grid.
4. Differentiate between Transactional and Transformational leadership.

9.10 FURTHER READINGS

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UNIT 10 COMMUNICATIONS

Structure

- 10.0 Introduction
- 10.1 Objectives
- 10.2 Communication: Meaning
 - 10.2.1 Types
 - 10.2.2 Process of Communication
- 10.3 Effective Communication in the Levels of Management
 - 10.3.1 Communication in the Decision Making
 - 10.3.2 Uses of Communication to Planning, Organizing, Coordinating And Controlling
- 10.4 Answers to Check Your Progress Questions
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- 10.7 Self Assessment Questions and Exercises
- 10.8 Further Readings

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10.0 INTRODUCTION

Communication, as we have seen, is fundamental to any human interaction. In families, societies, organizations and businesses, people constantly communicate with each other. Communication is indeed a necessity in various walks of life. We have already seen that communication which is so integral to work and work life situations, all the same, has its complexities. The complexities arise from the fact that communication is an interplay of human beings, organizations, markets, and various mechanical and electronic devices. Human beings are very complex beings. They bring to the process of communication their skills, attitudes, behaviour, styles, social and cultural background. All its complexities notwithstanding, the process of communication can be mastered. Those who can master the process of communication operate from a position of strength—a strength that facilitates self-development, career progression, leadership and contribution to society. Mastering various skills relating to communication is indeed a *sine qua non* for leadership and for achieving business-related excellence.

Communication is a very important part of any organization. It takes place among business entities, within markets, various groups of employees, buyers and sellers, service providers and clients, sales person and prospective buyers and within the organization and with the press.

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10.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the importance and process of communication
- Differentiate between interpersonal and intrapersonal skills
- Outline the various forms of communication
- Identify the various barriers of communication
- Work out ways to overcome barriers to communication

10.2 COMMUNICATION: MEANING

Communication is the interchange of thoughts and information to bring about mutual understanding. It is an exchange of facts, ideas, opinions and emotions. It involves telling, listening and understanding. It ushers in progress, galvanizes action and adds meaning to life. It stems from one's need to emote, interact, relate, reach out and connect. The methods of communication are oral or verbal, written, non-verbal, visual and audio-visual. Silence is also a form of communication, and is more often eloquent than words. Oral communication is the most widely used method, and plays an important part in everyday life, both for individuals and organizations. It takes place through meetings, speeches, discussions, etc. with the help of microphones, telephones, radio and other such media. Written communication is another powerful method of communication. It takes place through letters, memos, notes, circulars, etc. with the use of computers, word processors, telex, fax, etc. Non-verbal communication has a universal appeal and takes place through body language, gestures and postures, facial expression, etc. Visual communication includes pictures, graphs, charts, etc. and is often used as a supplement to other forms of communication. Demonstrations and presentations are included in this form. Self-development and communication go hand in hand. The greater the effort made at improving communication skills, the more will you develop in reaching out to people socially and professionally. Not all communication that takes place among individuals and groups is effective. Barriers apart, there are several factors affecting communication. These are conceptual clarity of the communicator, language used in the communication, moods and receptivity of the sender and the receiver, and the timing of the communication.

Good communication is not a matter of accident or chance. Especially in any business situation, it calls for planned, organized and coordinated efforts. Several essential ingredients contributing to the success of the communication should be reckoned with.

Essentials of effective communications are (i) clarity of purpose, (ii) understanding of the process, (iii) addressing the right target audience, (iv) requisite

communication skills, (v) adequate information, (vi) proper planning, (vii) positive approach and (viii) sincerity.

10.2.1 Types

Let us discuss the various types of communication in an organization.

1. Interpersonal Communication

Interpersonal communication skills are direct and interactive

Interpersonal communication skills are an important facet of the process of communication, and as such are extremely relevant for achieving personal as well as professional success. Interpersonal communication refers to face-to-face or person-to-person communication. It is often direct and interactive. The message is orally communicated with the help of words as well as through non-verbal communication, encompassing body language, spacing, facial expressions, tone, gestures, and action. Interpersonal communication involves the effective use of verbal messages plus body language.

Effective communication calls for insight into human behaviour

Interpersonal communication has come to acquire particular significance in all people-oriented situations. Large organizations that employ people at various levels lay particular emphasis on building interpersonal or people-related communication skills. Effective interpersonal communication calls for good insight into human behaviour and a clear understanding of how people are likely to react under different situations. Interpersonal skills are relevant in dealing with people, both within and without, in any service sector organization. They are particularly relevant in dealing with customer grievances and complaints redressal. Good interpersonal skills of the counter staff or the floor supervisor help diffuse heated arguments or flaring up during customer interaction, and, thereby, contain the damage to the business.

Training and other HRD efforts focus on developing interpersonal skills

Interpersonal skills have also come to acquire relevance as part of the HRD efforts of large and small organizations. People with good interpersonal communication skills are considered an asset to any organization. Training programs of service oriented organizations like banks, include sessions on the development of interpersonal skills. As one goes up the hierarchical ladder in an organization, one's span of control, or the number of people reporting also often gets enlarged. Effective interpersonal skills are a must in dealing with people at various levels.

How you say it is what matters

At a higher level, by interpersonal skills, we refer to certain specialized skills in dealing with people under complex situations. In any business organization where a large number of people are working, both pleasant and unpleasant situations might develop. A supervisor or manager might have to convey not only appreciation

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or praise, but also punishment and unpalatable developments. The job may involve criticism and reprimand of juniors. Under such circumstances, not only what the supervisor says, but also the way in which it is said and what is done through actions assume meaning.

Good leaders consciously develop all these verbal and non-verbal skills and use them successfully in dealing with a variety of people and situations. They use their interpersonal communication skills to create the desired impression, both positive and negative as the case may be. The words they choose, the way in which they express them, the tone, the gestures, and the action in totality are all impact creating, in any relationship building exercise, consciously or otherwise. The customer makes an impression on the counter staff as the customer walks in. The counter staff, likewise, make an impression on the customer. In any business, the first impression carries considerable value. If it is right, it results in a positive relationship. Hence, the right skills would cover the way we say hello, the smile, the attentiveness, the firm handshake, the impression we make as we enter and any such act which the party notices and, more importantly, interprets.

Some other essential skills relevant for effective interpersonal communication are the ability to win trust, build rapport, ask the right questions, and elicit full details. Effective interpersonal communication involves creating the right impression and conveying the anticipated message in a convincing manner. This demands honesty in approach and carrying in transparent communication. It means putting forth the right kind of questions in the right manner and bringing the other party to communicate. It means leading the other individual to believe in you and make you his confidante. It means making the other individual to break his hesitation. When we think of counselling, negotiation, hearing of appeals, personal interviews etc., extra communication skills would be involved. They have to be developed with conscious efforts.

Develop a positive attitude

People in service industry, as we have noted earlier, should necessarily have one basic skill, the ability to get along with other people. They should develop interpersonal skills such as the ability to communicate effectively and also work as a member of the team. While job-oriented expertise and knowledge are important, but that which is just as significant is the correct approach. The customer may admit not having complete knowledge but in no case will impoliteness or unresponsiveness be acceptable to him. That is why, training programs in service organizations covering marketing and customer relations lay particular emphasis on building the right attitude or mindset.

Bad feelings should not hinder communication

People come to work not only with their hands and heads, but also their hearts. They come with not only knowledge, wisdom and intelligence, but also feelings and emotions. Dealing with other people involves control over moods. Any work

situation has its mix of positives and negatives, good and bad strokes. Good interpersonal skills require underplaying the negative strokes and not letting them spoil one's temperament. A service provider should learn to rise above bad feelings coming from any quarter and not let those show up or hinder dealings with the customers.

Use logic to cope with difficult situations

The following quote from Roberta Cava brings out beautifully the strength of rational response in dealing with difficult situations: 'Two forces—logic and emotion are at work throughout our lives. Often they push and pull in opposite directions. The one that prevails at any particular time, will determine how we get along with others and may affect our level of achievement. It is easy to respond to situations with emotions rather than logic, but responding logically helps us deal constructively with difficult situations.'

Harmonious interpersonal relationships are the secret of business development

Harmonious relations with colleagues in the workplace and customers at the counter and at the field level are the secrets of business development. Both are of equal importance and complement each other. Harmonious interpersonal relationships among employees result in well-knit teams that can respond effectively to the customers, and the customer sees one happy family at work. No wonder John Rockefeller said, 'I will pay more for the ability to deal with people than for any other ability under the sun'.

Leadership and communication skills

Leadership and communication are closely interrelated. Good leaders master the art of communication. A leader, by definition, is a person who has a following. Whatever be the profession or business, a leader communicates through verbal and non-verbal messages, especially by setting an example or being a role model. The followers keenly look up to the leaders for their messages. Business leaders are also team leaders. They inspire and motivate their teammates. The ability to get across, build rapport and win trust becomes so crucial that achieving all these communication skills comes in very useful. To get results working with other people, the right kind of communication is a must for any leader.

Transactional analysis

Transactional analysis (TA) is regarded as one of the most promising breakthroughs in psychiatry in many years. TA, which constitutes yet another valuable approach to the understanding of human behavior and action, was originally developed by Dr Eric Berne, author of the book, *Games People Play*. The basic theory propounded by Dr Berne and the subsequent discussions on the subject have been presented by Dr Thomas A. Harris, founder-president of the Institute of

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Transactional Analysis, California, in his book, I'm OK-You're OK. In any business where services and products are delivered at the counters on a person-to-person basis, a study of TA should prove useful in understanding and appropriately responding to varied behavior.

TA divides an individual's personality into three ego states. An ego state has been defined as a consistent pattern of thinking, feeling or behaving. These states are produced by recalling the past events involving real people, real times, real places and real feelings. The ego states are helpful in distinguishing the words from their literal counterparts.

The three ego states identified are :

- **Parent state.** This is that state of the human personality that relates mainly to values, opinions and experiences of childhood. This state may be expressed either through the critical parent or the nurturing parent.
- **Adult state.** The adult state refers to the rational part of the human personality. Problem-solving and decision-making under this state are done on the basis of a careful assessment of factual data.
- **Child state.** This state relates to the emotional part of the human personality. This state may be expressed either through the free child or the adopted child.

I am OK – you are OK

This is an eminently desirable position. It indicates an acceptance of one's own self-worth as well as that of others. In this, the position transcends personal experiences and accepts not-yet-experienced abstractions and possibilities.

This life position shows a positive approach in dealing with real life situations. The person concerned shows a sense of maturity and is not uneasy while dealing with others. People with this attitude enjoy positions of leadership and do well in terms of developing and sustaining meaningful interpersonal relationships.

I am not OK – you are OK

This position relates to the acceptance of others but not of self. The person feels that there is something lacking in him.

This life position shows a shortcoming in dealing with real life positions. There may be a certain inferiority complex in interacting with others. By nature, this person will be submissive or passive. Such persons often show a subservient attitude and may also be conspicuous by their self-denial. Very often, 'I am not OK – you are OK' kind of people look up to others for advice and seek constant guidance.

I am OK – you are not OK

This position relates to the acceptance of self but not of others. The person feels that there is something lacking in others.

This life position too has its limitation in dealing with real life situations. In this case, the person concerned will have a superiority complex. The posture the person takes in dealing with situations is aggressive or even intimidating. This person tries to dominate and tends to provide unsolicited advice.

I am not OK – you are not OK

This position refers to the rejection of both self and others. For them, nothing is right. There is something lacking in them and also in others.

This life position too is very inadequate and deficient in dealing with people and situations. They are the opposite of I am OK – you are OK kind of persons. Such persons are conspicuous by their negative or pessimistic approach. They undermine themselves as well as others. They look down upon others, do not give credit for positive development and paint a gloomy picture. Such an attitude is certainly not conducive for becoming an effective leader.

Against this background of human personality, TA attempts to analyse a transaction. A transaction forms a basic unit of communication, i.e., a stimulus by one person and a response by the other. Obviously, such transactions keep taking place among people in a family, community and organization all the time. Transactions take place every time people meet or a communication takes place. All such transactions are categorized into three types: complementary transactions, uncomplementary or crossed transactions and hidden transactions. Complementary transaction takes place when the conversation proceeds smoothly, with expected responses emanating. On the other hand, in a crossed transaction, there is an unexpected response, leading to a breakdown in communication. In a hidden transaction, real responses are conveyed through facial expressions or other actions, and the words expressed do not convey the real meaning.

Types of transactions in TA

Dr Eric Berne claims that people spend 50 per cent of their waking hours in playing games. A game has been described as a covert method for either giving or collecting strokes, usually negative strokes or insults.

Games people play: Understanding the ‘games people play’ is what TA is all about. To the extent TA constitutes yet another approach to the understanding of human behaviour, people in businesses and organizations dealing with customers, colleagues, and other public on a regular basis should find a study of the subject rewarding.

Ego states and life positions described above significantly influence the behaviour of people. As we have seen earlier, the process of communication is also influenced by human behaviour and attitudes. Communication and interpersonal skills are again influenced by personality traits. The rational part and the emotional part of the human personality exert their influence on people in their transactions.

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Communication and life positions: Understanding the life position from which a person operates is very essential for making communication effective. Persons in the I am OK – you are OK category will show a positive and mature approach in dealing with various kinds of people, and ensure that communication does not break down. Dominating colleagues and rude customers who may belong to the I am OK – you are not OK class of people have to be dealt with in an appropriate manner. To the extent TA constitutes an essential approach in understanding human behavior so relevant for effective interpersonal communication, it would be beneficial to understand the concept, and use it for making business communication worthwhile.

2. Intrapersonal Communication

The word ‘intra’ means inside or within. In contrast to interpersonal communication, which implies communication with the other person, intrapersonal communication implies with the self. It refers to communication within the self, involving the process of thinking and feeling. Intrapersonal communication is a method of communication that helps every person to communicate with himself or herself. It helps in clarifying what is known as the self-concept. It is basically an introspective exercise.

Intrapersonal communication is an inward looking exercise

Intrapersonal communication can also be understood as self-talk. Self-talk is recognized as the verbal side of thinking. There is indeed a positive side of self-talk. Self-talk, also recognized as self-dialogue or inner speech is what you say to yourself during your waking hours. It is necessary to create self-awareness about self-talk. Such awareness helps analyse self-concepts and overcome negative feelings. Self-talk, if properly used, can help in overcoming emotional distress. Effective intrapersonal communication relates to the art of thinking, planning, and interpreting ideas and messages in a positive manner.

Intrapersonal communication overcomes negative feelings

Intrapersonal communication would also relate to the voice of conscience. This voice can play a significant role in the lives of individuals. It emphasizes the values and the ethical dimension in organizations. It brings to the fore the rational or the logical side of the business transaction and helps exercise the much needed restraint in communication. Through conscious efforts, one learns to talk to oneself so as to bring out positive response.

Intrapersonal communication is essential for interpersonal communication

One cannot really communicate effectively with the outside world, unless one masters the art of communicating effectively with oneself. In that sense, intrapersonal communication is a necessary precondition for effective interpersonal communication. Good communication depends upon positive outlook. Self-talk prepares the ground for this. Those who talk to themselves are not necessarily

crazy or mad. They are those who make effective use of yet another dimension of communication. Before making an important speech or attending a crucial meeting or responding to a provocative situation, you may take time off to talk to yourself, strengthen your resolve to exercise restraint and eschew anger or sarcasm. To quote Abraham Lincoln, ‘When I am getting ready to reason with a man, I spend one-third of my time thinking about myself and what I am going to say and two-thirds about him and what he is going to say.’

Intrapersonal communication, when used effectively, provides the right balance, orientation and frame of judgement in communicating with the outside world.

10.2.2 Process of Communication

A simple communication model that reflects communication as a dynamic interactive process has been proposed by David Berdo. His approach is based upon the following idea:

‘If we, accept the concept of process, we view events and relationships as dynamic, on-going, ever-changing, continuous. When we label something as a process, we also mean that it does not have a beginning, an end, a fixed sequence of events. It is not static, at rest. It is moving. The ingredients within a process interact, with each affecting the rest’.

This model described as a series of steps consists of the following components :

1. **Message sender.** This is the source of information or the initiator of communication. This source may want to communicate his ideas, needs, intentions or other pieces of information.
2. **Encoder.** This is the process inside the human mind in the form of motor skills, muscle system or sensory skills that encode the ideas to be conveyed into a series of symbols or gestures or some other format of expression.
3. **The message.** The message is a physical form of the thought that can be experienced and understood by one or more senses of the receiver. It could be in the form of hearing, reading or other physical gestures.
4. **Channel of communication.** It is a vehicle used for the transmission of the message. It is a medium carrier and bridges the gap between the sender and the receiver. It may be a face-to-face conversation, telephone conversation, in written form or through any form of gestures.
5. **Perception of the message.** The message is received by the person for whom it was meant and he becomes the receiver of the message.
6. **Decoding process.** Decoding is also done in the same manner as encoding by motor skills, muscle system or sensory skills and the receiver decodes the message for the purpose of interpreting and understanding the meaning of the message. The more the receiver’s intended message, the more effective the communication is.

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7. Action. This is a response from the receiver who has received and accepted the communication. This may be compliance with an instruction or simply filing of the message for future references.

8. Feedback. A feedback determines whether the message was clearly understood and the required action taken. The feedback to the sender completes the process of communication.

Check Your Progress

1. What is the difference between interpersonal and intrapersonal relationship?
2. What are the types of transactions in TA?

10.3 EFFECTIVE COMMUNICATION IN THE LEVELS OF MANAGEMENT

Communication as found in different levels of organization can take many forms internal, external, upward, downward, horizontal, lateral, grapevine, etc.

These guidelines are designed to help the management improve their skills in communicating so as not only to avoid any barriers to effective communication but also to strengthen the basis for optimum results that depend upon the clear understanding of the desired communication. These guidelines are partially based upon the principles proposed by American Management Association. These are:

1. *The ideas and messages should be clear, brief and precise.* The ideas to be communicated must be well planned and clearly identified. This will eliminate ambiguity so that the message will not be subject to more than one interpretation. The message must be clear, precise and to the point and free from distortions and noise. It should also be brief so that it is just necessary and sufficient and should avoid loose ends or meaningless and unnecessary words.
2. *Sense of timing.* The message besides being on time for timely decisions and actions, the time at which the message is sent and the environmental location wherein it is delivered and accepted is also of equal importance. A vital message conveyed at an incorrect time or in an unfavourable atmosphere may not be effective. The environment involves physical setting, i.e., whether the communication is conveyed in private, and also it involves the social climate which determines the work setting as well as interpersonal relationships.
3. *Integrity.* The communication must go through the appropriate mediums in order to reach the receiver it is intended for. The flow of communication and its increase should avert bypassing levels or individuals. The omission or bypassing of these related levels creates internal strife, disbelief, disorder and quarrels. Consequently, the set mediums must be used as needed.

4. *Consult with others who are involved in planning the communication.* If people have participated in the planning process, they would be highly motivated to give active support to such communication and carry it through. Also such participation would widen the scope and the objectivity of communication. The people who are concerned must know; exactly what they need and when they need the communication. The purpose of the communication must be clearly known by all as to what is to be achieved and how.
5. *Be prepared to help the receiver.* Take the receiver's interests into account, then the receiver will be more responsive to the communication. The management must clarify any part of the communication that may be necessary and must encourage comments, questions and feedback. The management must always be helpful in carrying out the intended message of the communication.
6. *Mode of delivery.* Not only the clarity on intent and the content of the message is important and necessary, but also the method of delivery. Avoid negative statements like, 'I am not sure, it will work', but be confident and definitive. The success of the communication also depends upon the tone of voice; if the communication is verbal, expressions and emotions exhibited, attentiveness to the receiver etc. The written communication should be polite and unambiguous.
7. *Use proper follow-up.* Unless it is a one-way communication, which is simply meant to inform, all communications need a follow-up to make sure that it was correctly comprehended and performed. An oral communication may require a follow-up through written confirmation. The reply and feedback to the communication would decide if the action to the communication was prompt, correct and perfect. Inappropriate or delayed responses should be immediately investigated and corrective measures instituted.
8. *Communication should be comprehensive.* Communication should be complete so as not only to meet the demands of today but should also be based on future needs of the organization as well as individuals. A reasonable projection and assessment of future needs and environments, both work and social should be incorporated, when planning and executing communication.

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10.3.1 Communication in the Decision Making

We have already seen in Unit 4, that decision making as a process involves a lot of steps like defining a problem, analysing it, identifying the resources, evaluating the alternatives, implementation of decisions, etc. Communication is relevant in all these processes. In fact, when we look at the organizational processes, we will notice that not only the top management involved in planning, but managers leading different departments like HR, productions, sales, marketing, etc. need to be involved to get an idea of the resources that can be used to solve a problem in the

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organization. Further, the analysis of the problem and the prospective solution needs to be evaluated and communicated to different departments for its implementation. This too requires communication for ensuring that all the information is updated and followed by every manager involved. Certain policy matters also need to be in the knowledge of all the employees. Whatever information needs to be disbursed needs communication. Further, even after the decision has been made and implementation, communication is necessary for keeping track of the progress as well as more importantly for receiving and incorporating of feedback.

10.3.2 Uses of Communication to Planning, Organizing, Coordinating And Controlling

Communication is at the heart of all the activities in the organization. The various departments and teams work together in coordination with the help of communication. Being the basic function of management, its dynamic, contextual, continuous features enables it to be used by the organizations in undertaking varied activities. The following points explain the uses of communication in the basic management functions:

- **Planning:** This involves preparing a plan of action of all the activities that need to be undertaken in an organization. This systematic activity needs coordination of various departments and not a single employee. The targets are made through their interactions. The external stakeholders of the organization are also handled through communication. All these interactions are carried out through communication tools like meetings, notices, circulars, memorandums, brochures and e-mails.
- **Organizing and Coordinating:** The organizing function of management requires identification and allocation of different works in the organization. Communication acts as an integrating tool for linking the business environment with the managerial functions. Effective communication is needed for reduction of duplicity of work. Updated data becomes crucial. The downward flow of information and all the forecasting will go to waste if not communicated properly and timely.
- **Controlling:** Communication conveys the clear messages of different departments, management policies and objectives. And on the basis of such information are orders for actions given to the employees. Unless there is a robust communication system in place, the managers will find it hard to get work done and enforce accountability. Communication gives directives their value and becomes record for any future clarifications.

Check Your Progress

3. What are the essentials of effective communication?
4. What are the different levels at which communication takes place in an organization?

10.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Interpersonal communication is face-to-face or person-to-person communication while intrapersonal communication refers to communication within the self, involving the process of thinking and feeling.
2. The types of transactions in transaction analysis are games people play and communication and life positions.
3. The essentials of effective communication are clarity of purpose, understanding of the process, addressing the right target audience, requisite communication skills, adequate information, proper planning, positive approach and sincerity.
4. Communication as found in different levels of organization are internal external, upward, downward, horizontal, lateral, grapevine, etc.

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10.5 SUMMARY

- Communication is the interchange of thoughts and information to bring about mutual understanding. It is an exchange of facts, ideas, opinions and emotions. It involves telling, listening and understanding. The methods of communication are oral or verbal, written, non-verbal, visual and audio-visual. Silence is also a form of communication, and is more often eloquent than words.
- Essentials of effective communications are (i) clarity of purpose, (ii) understanding of the process, (iii) addressing the right target audience, (iv) requisite communication skills, (v) adequate information, (vi) proper planning, (vii) positive approach and (viii) sincerity.
- Interpersonal communication skills are an important facet of the process of communication, and as such are extremely relevant for achieving personal as well as professional success. Interpersonal communication refers to face-to-face or person-to-person communication.
- Transactional analysis (TA) is regarded as one of the most promising breakthroughs in psychiatry in many years. TA, which constitutes yet another valuable approach to the understanding of human behavior and action, was originally developed by Dr Eric Berne, author of the book, *Games People Play*.
- The word ‘intra’ means inside or within. In contrast to interpersonal communication, which implies communication with the other person, intrapersonal communication implies with the self. It refers to communication within the self, involving the process of thinking and feeling.

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- Communication is at the heart of all the activities in the organization. The various departments and teams work together in coordination with the help of communication. Being the basic function of management, its dynamic, contextual, continuous features enables it to be used by the organizations in undertaking varied activities.

10.6 KEY WORDS

- **Communication:** An interchange of thoughts and information to bring about mutual understanding
- **Intrapersonal communication:** A method of communication that helps every person to communicate with himself or herself. It helps in clarifying what is known as the self-concept and is basically an introspective exercise
- **Interpersonal communication:** It refers to face-to-face or person-to-person communication

10.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. List some examples of external communication.
2. How does informal communication occur?
3. Write a short note on uses of communication to planning, organizing, coordinating and controlling.

Long Answer Questions

1. Discuss the concepts of interpersonal and intrapersonal communication.
2. Describe the concept of Transactional analysis.
3. Explain the principles of effective communication.

10.8 FURTHER READINGS

- Chandan, J.S. 2011. *Organizational Behaviour*, 3rd edition. New Delhi: Vikas Publishing House.
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UNIT 11 CO-ORDINATION

Structure

- 11.0 Introduction
- 11.1 Objectives
- 11.2 Meaning and Concept
 - 11.2.1 Characteristics and Importance of Co-ordination in the Organization
- 11.3 Principles and Process of Coordination
- 11.4 Techniques of Coordination
- 11.5 Understanding and Managing the Group Process
- 11.6 Answers to Check Your Progress Questions
- 11.7 Summary
- 11.8 Key Words
- 11.9 Self Assessment Questions and Exercises
- 11.10 Further Readings

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11.0 INTRODUCTION

In an organization, a harmonious relationship between the various divisions and departments is a must for its smooth functioning. The concept of coordination is viewed as one of the important functions of management. Coordination helps achieve harmony among individual efforts for the accomplishment of goals. Individual efforts must be integrated and synchronized in order to attain common objectives. It is a dynamic concept, which implies an orderly arrangement of group efforts to ensure unity of action. According to Henry Fayol, 'To coordinate is to harmonise all the activities of a concern so as to facilitate its functioning on the path of success.' With the increasing growth and complexity of modern organizations, the need for coordination becomes inevitable. Lack of proper coordination results in inefficient operations, delays and waste of time. This unit will discuss the concept of coordination in detail.

11.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand need for coordination
- Identify the types of coordination
- Learn about the principles of coordination
- Describe the techniques of coordination
- Discuss how to management group process

11.2 MEANING AND CONCEPT

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Coordination is a synchronisation of group efforts to achieve a common objective. According to E. F. L. Brech, 'Coordination is balancing and keeping together the team by ensuring suitable allocation of tasks to the various members and seeing that the tasks are performed with due harmony among the members themselves.'

According to Me Farland, 'Coordination is the process whereby an executive develops an orderly pattern of group efforts and secures unity of action in the pursuit of common purpose.' This definition views coordination as the task of integrating the individual needs with organizational goals through proper linking. Coordination is the centre point of managerial tasks. For example, planning is ineffective if departmental plans are not properly integrated and coordinated and it is required in each managerial function.

11.2.1 Characteristics and Importance of Co-Ordination in the Organization

The following are the characteristics of coordination:

- Coordination is not a distinct function. It represents the core of management.
- The purpose of coordination is to achieve the common objective.
- Coordination is a continuous and an ongoing process.
- Coordination does not arise spontaneously or by force. It is the result of concerted action.

Need for Coordination

Existence of disintegrating forces emphasises the need for greater coordination among various divisions of an enterprise. The disintegrating forces may act as barriers to effective coordination. The factors that emphasise on the need for coordination are:

- **Increasing specialisation:** Coordination becomes essential when the principle of specialisation has been practised in a work area. The activities of the unit may be divided on the basis of product, function, region or some other form. Every employee is mostly concerned about his/her unit's performance. It results in conflicting interests within the same organization. A good coordination paves the way for effective integration of efforts of all people for the accomplishment of a common goal.
- **Empire building motive:** Each employee is motivated by his performance in the unit. As a result, this kind of attitude may fulfil his personal and professional ego but isolate him from others. Organizational goals cannot be accomplished with this kind of tendency. Coordination is essential to ease out this situation.

- **Personal conflicts between employees:** Personal rivalries, jealousies and politics among the employees in the work situation are bound to create problems to the management. For example, conflicts between any two divisions or departments of the organization create problems in the smooth functioning of an organization. Coordination helps in harmonising group efforts within the organization.
- **Subordination of individual interest to that of organizational interest:** Individual interests are important for developing loyalty, integrity, hard work, initiation and motivation. Organizational interests are much more important than individual interests. For achieving organizational interest, subordination of individual needs is a must as organizational goals are prior to individual goals. The purpose of coordination is to attain the organizational interest.

The importance of coordination need not be over emphasised. The primary task of management is to coordinate all the activities effectively. It is a creative force through which employees are encouraged to contribute to group goals voluntarily, willingly and enthusiastically. Coordination allows personal and social satisfaction among employees. The three types of coordination are: Internal and external, vertical and horizontal, procedural and substantive coordination.

Check Your Progress

1. What do you understand by the term 'Coordination'?
2. What are the three types of coordination?

11.3 PRINCIPLES AND PROCESS OF COORDINATION

Mary Parker Follet has laid down the following four principles for effective coordination. These principles help every manager in discharging his functions.

- **Early Start:** The task of coordination becomes relatively easy if it starts at the planning stage. Free exchange of ideas helps in clearing doubts and removing misunderstanding. Hence, plans must be prepared in consultation with all people. Plans become successful if coordination is practised at an initial stage. Securing coordination becomes impossible at later stages like execution of work.
- **Direct Personal Contact:** Coordination stresses the importance of direct contact in removing conflicts and misunderstanding. Effective coordination is best achieved through direct personal contact. Direct communication is the most effective way to convey real feelings to facilitate greater coordination.
- **Continuity:** Coordination is an unending process. The management has to continuously strive hard to maintain perfect balance among different units/

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people. Continuous coordination helps the manager to adjust the cooperative activities of employees to minimise wastages, misunderstanding and apathy.

- **Integration:** The fourth principle of coordination calls for integration of efforts for achieving a common purpose. For this purpose, coordination demands integrated relationship among all the concerned people.

Interdependence and Coordination

Coordination influences all functional activities of management. In a similar way, all other activities influence coordination. This is termed as interdependence. Interdependence is imperative for the success of any organization. James D. Thompson has categorised interdependence of work units under three heads:

- **Pooled Interdependence:** When departments or divisions of an organization are not directly dependent on each other, but indirectly responsible for the overall performance of the enterprise, it is termed as pooled interdependence. It represents a situation where failure of one unit/division leads to the failure of the entire enterprise. Each unit/department makes its own contribution and supports the main system in its own way.
- **Sequential Interdependence:** It refers to a situation where the output of one department becomes the input of the other. This type of interdependence usually exists in the process industry.
- **Reciprocal Interdependence:** It refers to two-way interdependence. Here, the output of one becomes the input of the other and vice-a-versa.

Process of Coordination

Different organizations adopt different mechanisms for achieving effective coordination. There is no single method of coordinating the managerial activities that can be universally acceptable. J.D. Thomson has identified three important categories of approaches for achieving effective coordination:

1. **Integration through standardization:** It involves the development of standard rules and procedures through which the job holders/ departments have to direct their activities in order to ensure consistency in operations.
2. **Plans and schedules:** Separate plans and schedules may be prepared for each department or unit. At the corporate level, all plans are merged and integrated so as to obtain optimum results. Coordination becomes easy since departmental plans are flexible than standards.
3. **Mutual adjustments:** Activities of the company are coordinated through mutual adjustments among the sister units/departments on a contingency basis. Here cooperation is assured between the needy units for the purpose of getting things done.

In traditional organizations, coordination is achieved through standardisation and planning. In the usual methods of coordination, complicated system of rules

and procedure are created for sorting out recurring problems. These rules are followed by the traditional and bureaucratic organization.

Traditional organizations could be advantageous by following the rules of coordination among various units of the organization. But, the traditional approach of coordination is inadequate to meet the requirements of a modern organization under a dynamic environment.

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11.4 TECHNIQUES OF COORDINATION

The following are the techniques of effective coordination:

1. **Sound planning:** The first important condition for effective coordination is unity of objective. Planning helps in achieving goals with the combined effort. Sound planning sets clear-cut objectives, synchronised policies and unified procedures ensuring uniformity of action.
2. **Simplified organization:** The organization structure should be clearly defined from top authority level to bottom. Clearly defined authority and responsibility reduce conflicts within the organization.
3. **Effective communication:** Communication is the key to coordination. Open and regular communication helps in interchange of opinions and resolving differences between the management and employees. Thus, communication develops mutual understanding among the employees.
4. **Effective supervision:** Effective supervision helps in achieving coordination at the planning and execution stage. A good supervisor inspires his subordinates to strive for the common objective. Sound supervision persuades subordinates to have a common outlook towards the goal and resolves the differences of opinion.
5. **Associated departments:** For effective coordination contacts between associated departments is necessary. For example, the production, sales and marketing departments are interdependent. Therefore special coordinators should be appointed to coordinate the activities of different departments within the specified period of time.

11.5 UNDERSTANDING AND MANAGING THE GROUP PROCESS

There are certain inherent processes existing within each group. After a group has progressed through the stages of development, it is assumed that certain stable patterns of relationships exist among its members. Bonds of intimacy and interpersonal attractions have emerged and influential members have been identified. Appropriate behaviours for individual members have been established, and these result in creating a definite structure for the group with certain important processes

which also characterize the “dynamics” within groups. Some of the important dynamics of the group are discussed in this section:

Group Norms

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Groups develop common expectations called *norms* to reinforce the behaviour of people and prevent dysfunctional behaviours. Social norms regulate the relationship between individuals in groups; in fact, they are a guide to behaviour on a number of issues ranging from how tasks are done and level of output to appropriate level of tardiness (Blau 1995). Norms are defined as a set of expectations about appropriate individual and group behaviour commonly agreed on by its members (Feldman 1984). They are established over time for behaviours that have significant impact on a group, like facilitating its survival, increasing predictability of member behaviours, ensuring member satisfaction, expressing values important to the group’s identity, and preventing embarrassing interpersonal problem (Feldman 1984).

Types of norms

Norms have been classified in a number of ways. The first classification is into formal norms and informal norms. Formal norms exist as written rules and procedures for all employees to adhere to. Informal norms develop as a result of members’ own behaviours and experiences which help or hinder their performance and satisfaction. Norms can also become functional or dysfunctional on the basis of the purpose they serve.

Most work groups exhibit some common forms of norms (Goodman et al. 1987). Performance-related norms indicate the level of performance expected from the members of the group. Anyone exceeding or not meeting the standard is likely to be alienated by the group. Groups can also have norms about appearance, which dictate the dress code to be followed, and how to communicate one’s presence in the organization. There are norms related to informal social arrangements which facilitate members to choose the people they would like to have informal conversations with, joke around with, or have lunch with. Someone who chooses to ignore the group norms is generally labelled as a deviant. Pressures are put on the deviants to conform to group norms, and these pressures can take the form of verbal abuse, physical assault, blacklisting, and also exclusion from the group.

Norms are associated with the internal workings of the group. For an outsider, only the group’s external image is visible; the private language of the group, the technical slang, and the internal jokes appears to be alien. Some norms are beneficial from the organization’s point of view when they help to maintain the quality of output, that is, the desire to do a good job. Other norms are considered counterproductive if they go against the values and mission of the organization, for example norms supportive of restrictive practices in organizations.

Functions of Norms

According to Feldman (1984), the existence of norms within a group serves the following purposes:

- Norms provide a reflection of the nature of the group and also its central values to outsiders.
- Norms make the expected behaviour of the members more explicit, therefore, leading to the anticipation of members' behaviours. This results in a high level of clarity and smoother functioning of the group.
- Norms help groups to survive especially in instances of deviancy. When the group rejects the deviant behaviour of some members, it may make other members come closer to each other to sustain and support each other.

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Check Your Progress

3. Define the term 'Interdependence'?
4. What are the approaches for achieving effective coordination?
5. What are the techniques of coordination?

11.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Coordination is a synchronisation of group efforts to achieve a common objective. According to E. F. L. Brech, 'Coordination is balancing and keeping together the team by ensuring suitable allocation of tasks to the various members and seeing that tasks are performed with due harmony among the members themselves.'
2. The three types of coordination are: internal and external, horizontal and vertical, procedural and substantive coordination.
3. Coordination influences all functional activities of management. In a similar way, all other activities influence coordination. This is termed as interdependence. 'Interdependence' is imperative for the success of any organization.
4. The following are the approaches for effective coordination:
 - (a) Integration through standardisation
 - (b) Plans and Schedules
 - (c) Mutual adjustments
5. The following are the techniques of coordination:
 - (a) Sound planning
 - (b) Simplified organization

- (c) Effective communication
- (d) Effective supervision
- (e) Associated department

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11.7 SUMMARY

- The term coordination refers to orderly arrangement of group efforts for the purpose of accomplishment of objectives. It is the basic responsibility of every manager. It is a continuous process.
- The problem of coordination comes into picture when management is dealing with group efforts but not with individual efforts. The term coordination should not be confused with cooperation.
- The significance of coordination results in efficiency, morale and optimum use of resources. On the basis of scope and coverage, coordination may be divided into internal and external, vertical and horizontal and procedural and substantive.
- Different techniques are available for achieving higher degree of coordination. Similarly, different managements deal with the problem of coordination through different approaches. Whatever the approach, it has to clarify the role of the manager regarding his authority and responsibility.
- The purpose of coordination should be attaining optimum use of resources for the common cause of the organization.
- According to Marvin Shaw, 'A group is two or more persons who are interacting with one another in such a manner that each person influences and is influenced by each other person.'
- From an organizational behaviour point of view, there are basically two types of groups. These are: formal groups and informal groups.

11.8 KEY WORDS

- **Coordination:** It is the process whereby an executive develops an orderly pattern of group efforts and secures unity of action in the pursuit of common purpose.
- **Interdependence:** It is a reciprocal and mutually dependant relation between entities.
- **Formal Groups:** They are the groups that are created as per official authority, so as to fulfil the desired objective.

11.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. 'Coordination is the essence of management'. Do you agree? Give reasons.
2. Discuss the characteristics of coordination.
3. What are the types of coordination?

Long Answer Questions

1. Describe the importance of coordination. Discuss the techniques of achieving effective coordination.
2. Write short notes on the following:
 - (a) Types of Coordination
 - (b) Principles of Coordination
 - (c) Approaches to Coordination
3. Describe the approaches for effective coordination?

11.10 FURTHER READINGS

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BLOCK IV
BUSINESS ETHICS WITH NEW
PERSPECTIVE IN MANAGEMENT

UNIT 12 BUSINESS ETHICS

Structure

- 12.0 Introduction
- 12.1 Objectives
- 12.2 Business Ethics: An Overview
 - 12.2.1 Relevance of Values in Management
 - 12.2.2 Holistic Approach for Managers in Decision Making
- 12.3 Ethical Management: An Overview
 - 12.3.1 Role of Organizational Culture in Ethics
 - 12.3.2 Ethics Committee in the Organization
- 12.4 Answers to Check Your Progress Questions
- 12.5 Summary
- 12.6 Key Words
- 12.7 Self Assessment Questions and Exercises
- 12.8 Further Readings

12.0 INTRODUCTION

This unit will introduce you to the nature and scope of business ethics and professional behaviour. Although the herd morality of early man is hardly relevant today, most of us tend to follow the beaten path. Ethics, which judges the moral worth of conduct, is a subject that covers virtually all aspects of our life. Ethics is the branch of philosophy that is used to study the values and behaviour of a person. As ethics deals with the ideals involved in human conduct, it also deals with the standards of right and wrong and good and evil involved in conduct. The scope of ethics is very wide. There is no conduct that is totally free from moral considerations. It is concerned with the ideal or standard to which our conduct should conform. Hence, it enquires into the nature of the forces that impel men to action. Philosophical questions like that of the freedom of will also come within the scope of ethics. We have a long way to go before we understand the implication of human values in management. In this unit, we will learn about the concept of business ethics, the relevance of values in management, the holistic approach for managers in decision-making, the concept of ethical management, the role of organizational culture in ethics and the functions of ethics committee in an organization.

12.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the concept of business ethics
- Discuss the relevance of values in management
- Describe the holistic approach for managers in decision-making
- Recall the concept of ethical management
- Identify the role of organizational culture in ethics
- Discuss the functions of ethics committee in an organization

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12.2 BUSINESS ETHICS: AN OVERVIEW

Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling goods. Business ethics and values are important for the successful development of a business organization. Ethics in business refer to a code of standard by which one can determine what is wrong and what is right for the business enterprise. Fairness, integrity, committing to agreements, broad-mindedness, considerateness, importance to human esteem and self-respect and many such principles determine business ethics.

Business ethics generally deals with what is right or wrong in the business. According to Wallace and Pekel, ‘attention to business ethics is necessary during times of fundamental change as the moral values that were not taken seriously are strongly questioned at that time’. It is business ethics that enables the leaders and employees to act in times of crisis and confusion in the business. Business ethics is a method of dealing with unclear business problems.

Unethical Problems in a Business

- **Managerial misbehaviour:** Managerial misbehaviour includes illegal and unethical practices involved in the management of an organization.
- **Moral mazes:** Another broad area of business ethics is that of the ‘moral mazes of management’. It includes ethical problems such as conflicts of interest, misconduct of contracts and agreements and the illegal use of resources. Business ethics has become a management discipline after the birth of the social responsibility movement in 1960. This movement helped solve various social problems such as poverty, crime and illiteracy by using the finance from business class people.

To develop better relationships among people within an organization, the field of human resources emerged recently. As the complexity in the field of commerce has been increasing day by day, so has the need to simplify trade in an organization.

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The process of simplifying the commerce within an organization ensures better trading between the partners. With the growing need of simplifying trade, there emerges the discipline of business ethics. Business ethics is managed by following the ethical code and the code of conduct as set by an organization.

12.2.1 Relevance Of Values In Management

While integrity is a way to find meaning in business activities through a professional approach, one aims to do good to others, not harm. Thus, business and business corporations need to have professional ethics and professional management. This principle of ethics requires management to invest in ethics and all those supportive systems that help to have and secure the benefits of ethics in the organization.

Why should Managers invest in Ethics?

We will now focus on some of the core management values, management development and growth, and management culture. Professional management is highly valued and is necessary for any company or country. We can appreciate the standards that professional management sets and aims to achieve. We can also appreciate the dimensions where management lacks growth, and enable it to grow and develop. The assumption that managers are morally developed creatures may be true for some, but not for all as some managers may invest too little on ethics, on understanding values as principles and on commands or rule. It is assumed here that managers have some prior knowledge of what it means to invest in a value. It is to participate in it and get a share in it. One of the important things of life is to be worthy of the moral and ethical life we wish to share. But this also entails certain risks: one may not be worthy of participation in it. There may, of course, be other problems as well.

This aspect is worth investing in ethics for a variety of reasons. It is especially true for managers. To start with, management theories lack their worth in terms of what they can contribute to the ethical management of the enterprise. In other words, why study management theories, if in the end cheating, lying, discriminating, defrauding, usurping, giving false evidence, etc. are not objected to to get excellent performance?

The very purpose of management is to steer us clear from daily ethical problems. Otherwise, why management? Yet management is firmly entangled in ethical problems. In short, one cannot be a professional manager and participate in the values of professional management if one is not ethically aware, does not have an ethical identity and cannot hold an ethical dialogue. There are some additional advantages to this as well: ethical awareness helps managers communicate better; it helps them understand the law and motivates them to comply with it, thus gaining public credibility and generally helping them in becoming better and discerning managers. The management under her or him is orderly and the best one can hope to find. A professional manager knows and is capable of preserving management integrity.

If there is any truth to management and to the theories therein, it is management that must serve the truth. True management is ethical management, it is verifiable and hence objective and proven; it is accountable and hence not infinitely stretched but concentrates on core issues (values) which it must consider even if the issues prove to be beyond its strength and resources; it is transparent and hence not expected to be in the measure we want or in good measure in a world of secrecy and secret (board room) dealings; it is governable and hence includes democracy or voting at some level, subject to the rule of order (to bring order out of chaos).

Any professional manager must reckon at some point with other professional managers. The organization (in part or the whole) he or she manages must be valuable to him or her, but there must also be organizations which linked to or competing with other organizations. Therefore, if he or she wants to get value from the organization, it is worthwhile for him or her to make ethical investments in it.

12.2.2 Holistic Approach for Managers in Decision Making

Ethics is one of the dimensions of the decision-making process. Ethics is absent when no moral issue is associated with the decision. It becomes relevant when a moral issue surfaces. Let's look at how managers keep in mind ethics in the process of decision making.

Decision-Making and Morality

The main features of the decision process model include personal traits, organizational traits and the decision-making process.

Personal Traits

Business decisions are made by individuals or by committees, thus the ethics of business in reality is the ethics of the individuals making up the business. A discussion of business ethics then becomes a discussion of the ethics of the individuals who make business decisions. A person's ethics are influenced by his personal values, ego strength, field dependence, locus of control, stage of moral development, moral approbation and also by the culture of the organization.

Values

The individual's attitudes are based on the personal value system of the decision-maker. A value is a belief on which a man acts by preference. A value is a prescriptive belief. Thus, ethical values are prescriptive beliefs about what is right and what is wrong. Values may be based on rules and are referred to as deontological or rule-based beliefs or values may be based on the perceived outcomes and are referred to as teleological beliefs.

Values can be divided into two classes—terminal and instrumental. Terminal values refer to beliefs about ultimate goals while instrumental values refer to beliefs

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about desirable modes of behaviour that are instrumental to the attainment of ultimate goals.

Three personal traits act as moderators of an individual's personal values in decision-making activities. They are ego strength, field dependence and locus of control.

Ego strength is actually another term for self-confidence. Ego strength is associated with personal beliefs. A person with high ego strength would be expected to rely more on his own personal values and beliefs of what is right and what is wrong and be less influenced by others.

Individuals with high field dependency make greater use of information provided by others to clarify issues when situations are ambiguous. Field-independent persons tend to rely on the information they possess. Decisions made by field-independent persons are more likely to be based on their personal values and are likely to deviate less from similar decisions they would make outside the organization.

Locus of control reflects an individual's understanding of the control they have over life's events. An 'external' believes that life's events are controlled by destiny, fate or luck. An 'internal' believes that life's events are controlled by his own actions. An internal is more likely to feel a sense of responsibility for results and thus is more inclined to rely on personal values and beliefs of rights and wrongs. An external is less likely to feel personal responsibility for the consequences of behaviour and thus is more likely to be influenced by forces within the organization.

There are six stages of moral development and an individual develops sequentially through the stages. The criteria for determining morally correct action differ for each stage. The criteria are: Stage one—actions that avoid punishment; Stage two—actions that serve one's needs; Stage three—actions that gain approval from others; Stage four—Actions that abide laws and authority; Stage five—Actions taken to abide by social contracts and Stage six—actions supported by universal principles. All six stages provide rationale for moral action.

Moral Approbation

Moral approbation is the desire to avoid moral disapproval. Human beings have a need to be moral. This need may be biological, social or religious. It motivates individuals to gain moral approval from others and to avoid moral disapproval. Moral approbation theory is based on four components of an act—magnitude of consequences, certitude of evil, degree of complicity and extent of pressure to comply.

The magnitude of consequences of an action is the sum of all harms and benefits associated with the act. The greater the net harm associated with the act, the greater the moral responsibility of the actor.

The degree of moral ambiguity in a situation is referred to as the certitude of evil. The moral responsibility on an individual is greater when an act is clearly immoral than when it is morally ambiguous.

The degree of complicity describes the extent of personal involvement in causing or failing to prevent an immoral act. The moral responsibility of a person is directly related to his degree of involvement in the act. Finally, the extent of pressure to comply refers to the degree of freedom an individual possessed when engaged in any immoral act. The greater the freedom, the greater the moral responsibility. External pressure may take the shape of economic, physical or psychological pressures.

According to moral approbation theory, high moral responsibility tends to be associated with moral action due to the desire of the decision-maker to be judged as a morally good person. When moral responsibility is low, the risk of being judged immoral is less and thus motivation to act morally is reduced. Unethical behaviour is much more likely when moral responsibility is low rather than when it is high.

Organizational Culture

Organizational culture is the common set of assumptions, beliefs, and values that has developed within the organization to cope with the external and internal environment and which is passed on to new members to guide their actions within these environments.

Culture has several important functions. First, it provides a sense of identity among organizational members; second, it promotes a commitment of the members to the organization, third, culture provides for stability of the organizational social system and lastly, it provides rationale and direction for behaviour.

The underlying organizational values are the core of the firm's culture:

1. Trust and respect individuals.
2. Focus on a high level of achievement and contribution.
3. Conduct business with integrity.
4. Achieve common objectives through team work.
5. Encourage flexibility and innovation.

While organizational culture serves as its overall structure, specific aspects of an organization's culture need individual treatment. Organizational climate and organizational goals are parts of organizational culture.

Organizational Climate

Organizational climate may be referred to as a shared and enduring perception of important aspects of the work environment. There are many types of organizational climates but we will limit our discussion to ethical climates.

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Victor and Cullen believe that there are nine ethical climates within an organization. The nine climates are self-interest, company interest, efficiency, friendship, team interest, social responsibility, personal morality, rules and operating procedures and laws and professional codes. The ethical climate within an organizational unit may have a strong impact on the way a decision-maker approaches the ethical dimensions of business problems.

Organizational Goals

In addition to organizational climate, organizational goals influence the ethical dimension of decision-making. We shall limit our discussion to organizational goals that are likely to influence the ethical aspects of decisions.

Certain types of organizational policy can significantly affect the ethical behaviour of managers within the corporation. Policy may take the form of codes of conduct or operating policy by top management. Policies serve as the laws of the firm, providing guidance and a means for management control. To be effective, the policies must be well-known to all members in the organization.

In addition to policy, the reward structure also affects the ethical aspects of decision-making. The effects of reward or punishment will have a significant influence on the ethics of the decision-maker.

Decision Processes

Management problems may be divided into strategic and tactical ones. Strategic problems involve long-term commitments of resources, for example, where to locate a new plant. Tactical problems involve short-term resource deployments supporting strategic decisions such as how many production lines to operate in the plant next month. Tactical decisions are made by lower-level managers while strategic decisions are made by upper-level managers. A decision of either type resulting in unethical behaviour is not to be condoned.

An organization's policy can have a significant influence on the decision alternatives considered by the decision-maker. Effective corporate policy that encourages ethical behaviour and discourages unethical behaviour will tend to eliminate unethical decision alternatives. Conversely, ineffective policy will tend to encourage the inclusion of questionable alternatives in the set of solutions being considered. Professional code of conduct of the organization, positive reward structures and effective policy tend to eliminate the opportunity to engage in unethical behaviour.

Once the set of decision alternatives has been set up, each one is evaluated on the basis of the following relevant criteria— economic, political, technological, social and ethical issues. We know the general criteria used but we do not know their role in the actual evaluation process. The relative importance of the criteria may be situational. For most decisions, economic criteria will be important. The impact of business decisions on society is important because economic units operate at the pleasure of the society.

Ethical issues deal with what is morally wrong and right with a decision alternative. The judgment is based on the moral standard of the decision-maker. Moral standards consist of moral norms and moral principles. Moral norms are specific standards that require specific types of behaviour. Moral principles are more general standards used to evaluate private and public behaviour. These standards include principles of justice, principles of rights and principles of utility.

The actual decision process may occur in two stages. During stage I, the decision-maker applies a minimum performance rule to each dimension that specifies the minimum acceptable performance level for each dimension of the decision. The minimum performance level may be less than desirable and when considered by itself, would lead to the rejection of the alternative.

Total Benefit Test

Decision alternatives that survive the first phase—minimum performance rule test—may then be subjected to the second phase—a total benefit test yielding the overall value of each alternative. The first step in calculating total benefits is to assign a relative importance weight w to each of the five decision dimensions. Then, the total benefit of each decision alternative is evaluated individually. For each decision dimension, expected benefit b is estimated. The relative value v of the decision dimension is computed by multiplying the importance weight w by the benefit b ($v = w \times b$). The relative values v of the dimensions are then summed up to arrive at the total benefit T provided by the decision alternative.

Making Moral Decisions

Two conditions are necessary for a manager to consistently include ethics in the decision-making process. First, the organizational culture must support ethical decision-making. Second, the manager must possess tools for evaluating the ethical dimensions of a decision. A manager has little influence on the culture of the organization. But he has a great deal of control over the tools available for evaluating decisions. A culture that supports ethical decision-making will encourage managers to secure the necessary tools to function successfully within the culture.

Organizational culture is the common set of assumptions, beliefs and values that have developed within the organization to cope with the external and internal environments. Culture as an organizational concept focuses on the beliefs, values, speech, and artifacts of groups of people and the manner in which these traits are transmitted from generation to generation. Organizations also have certain common features that provide internal guidance and are shared and perpetuated by their members. Thus, the concept of organizational culture was a natural extension of the concept of culture.

There are two levels of corporate culture. The deeper level of culture consists of values that are shared by members of the organization. The values tend to be relatively stable over time and are passed on to new members as the composition

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of the organization changes. The values are generally so deeply entrenched in the organization that members are often not even aware that they exist.

The second level of culture consists of norms that guide the behaviour of organizational members in their day-to-day activities. Behavioural norms are visible in the members' dress, language and behaviour. Behavioural norms develop from the shared values of the organization. Norms often develop as a result of a combination of values.

Culture develops throughout the life of an organization. It originates as the beliefs and values of the founders are shared with other members of the organization. The values of the founders provide the basis for an initial set of beliefs concerning how the organization should relate to its external environment. This includes the initial core mission, goals and strategy. It also involves the methods used to implement and evaluate the strategy. These beliefs and values guide what is considered 'appropriate behaviour' for the organization's success and survival. For example, the founders may place a high value on professionalism in dealing with customers. As this value develops into a shared value of the firm, the belief may emerge that a professional image is critical to success.

In addition to the founder's influence, major developments in a firm's culture may also occur when a dynamic new leader takes over charge. Cultural values also provide guidance for the firm in integrating its internal environment. It provides common concepts necessary for internal communication. Culture creates a consensus of the membership boundaries of the organization and thus defines who is included and who is excluded. The rules for acquiring, maintaining and losing power as well as for obtaining rewards and punishments are part of an organization's culture. Last but not the least, culture provides an ideology for the firm.

The internal environment is organised to function successfully and to cope with the firm's external environment. The shared beliefs concerning the relevant characteristics of the external environment guide the structure and operating relationships created within the internal environment.

Thus, culture functions to promote the survival of the firm by influencing both its external and internal behaviour. It promotes consistency of behaviour in a way that members of the organization believe to be successful. When the environment changes, existing behaviour ceases to be successful, culture then changes to meet the new environment.

High-performing cultures promote ethical behaviour. A value is defined as a lasting belief that a certain mode of conduct is better than the opposite conduct. Business ethics has been defined as the process of evaluating a business decision with respect to the moral standards of a culture. Values that support moral standards will influence behaviour in a moral direction. The common belief is that behaviour that supports the standards is better than behaviour that does not. If the shared values of an organization are consistent with the moral standards of the culture, the organization's culture will support ethical behaviour. A key factor in the ethics of a

firm is the set of values considered important by the members of the firm. If the shared values of the firm support moral standards, culture supports ethical decision making, if the values do not support the standards, culture does not support ethical decision-making.

Three conditions are necessary for the good performance of a firm. First, the firm must have a strong corporate culture. This is a necessary but not sufficient condition. Second, the culture needs to fit the environment in which the firm operates. A firm operating in a rapidly changing environment requires a culture significantly different from a firm operating in a stable environment. Thirdly, the culture must be able to help the firm anticipate environmental changes and adjust successfully to those changes. The culture should encourage good leadership, for it is leadership that provides the change mechanism for keeping the culture abreast with its environment.

Justice is associated with fairness and integrity is associated with honesty. A strong case can be made for high-performance companies being ethical firms. This is the strongest justification for the statement that good ethics is good business. Ethics is a necessary but not a sufficient condition for high performance.

Decision Support Model

Before making a decision, the manager collects information about the problem and the available alternatives. The information sought includes the stakeholders affected by the decision as well as the potential positive and negative impacts on each stakeholder resulting from each decision alternative.

Managers should incorporate all relevant hypernorms into their decision-alternative evaluation. In addition, all applicable community norms should be considered. The inclusion of multiple community norms involves the possibility of norms' conflicts. When community norm conflicts are discovered, the manager should determine the priority rules. By applying the proper priority rules, a consistent set of community norms can be developed for use in evaluating the decision alternatives. An alternative judged unacceptable on any norm ought to be dropped. An alternative judged acceptable on all norms is a desirable alternative from ethical point of view.

Apart from ethical dimension of business decisions, there are four other dimensions—economic, political, technological and social. An alternative with sufficient benefits on any of these dimensions may offset a marginally acceptable ethical judgment and become an alternative of choice. A business is an economic institution and it must make sufficient profit to exist. If a decision alternative appears profitable, the economic benefits may be sufficient to offset a marginally acceptable ethical dimension. The firm will be then forced to operate at an ethical level not desirable to the manager but dictated by economics. A significant political benefit can turn a marginally acceptable decision within the ethical dimension into an acceptable decision alternative. Lastly, a strong judgment on the social dimension can provide support for an alternative that is marginally acceptable on ethical ground.

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When all decision alternatives are judged acceptable from ethical stand point, the alternative selection is based on the remaining four decision dimensions— economic, political, social and technical.

For a manager to consider ethics consistently in decision making, the organization’s culture must support ethical behaviour. A culture that supports ethical behaviour will motivate managers to obtain the required decision tools.

Check Your Progress

1. What enables the leaders and employees to act in times of crisis and confusion in the business?
2. List two types of unethical problems in a business.
3. What is locus of control?

12.3 ETHICAL MANAGEMENT: AN OVERVIEW

The ethical manager focuses on developing and adhering to ethical goals, motives, standards, and general operating strategies. The use of power is basically to pursue fair and just ends. Laws are taken as the minimum standards of conduct. Ethical management is essentially unselfish and not prone to self-serving politics. Ethical management does not believe in compromising performance; in fact, it promotes enduring self-interest.

Ethical managers support their people, recognize their accomplishments, are sensitive to their fears and needs, communicate confidence in the organization’s purpose and products, and use power and politics in a justifiable way.

Unethical management

The unethical manager is not only devoid of ethical principles, but also actively opposed to what is ethical (Carroll 1987). For unethical managers, selfishness is paramount, whether they are focusing on using power for personal gain or maximizing short-term gains for the firm. Senior managers of Beech-Nut, the baby food company, deliberately moved inventories of bottled sugar water (deceptively labelled as apple juice) from warehouse to warehouse in efforts to evade Food and Drug Administration investigators. They were knowingly engaging in unethical (and illegal) behaviour (Welles 1988). Unethical managers have a tendency to cut corners and conceal the facts as they are obsessed with personal power. This seems to be the case with tobacco-industry executives proclaiming that their product is non-addictive, and yet their proprietary research has revealed for decades the addictive capacity of tobacco.

An unethical manager also lacks any moral sensibility whatsoever. He can have either an intentional or an unintentional approach to ethical issues. The intentionally unethical manager will deliberately keep ethics out of personal decisions within the organization.

The unintentionally unethical manager does not give any thought to ethical principles at all. He may lack ethical principles and thus not reflect on the broader consequences of how power is used.

One of the greatest dangers of unethical management is that decisions are made without anticipating the negative consequences. Some of the examples include Nestlé's decision to market concentrated baby formula in underdeveloped countries with impure water or police department's decision on height and weight requirements that effectively exclude many persons from ethnic groups that, on average, are slight in stature (Carroll 1987).

Advancements in technology have posed a new ethical challenge. Technology now permits supervisors to eavesdrop on their staff's phone conversations and to secretly observe computer screens or even type in warnings when they see something they do not approve of (Bylinsky 1991). Whether the employee is a reservation agent or stockbroker, such use of power invades privacy with an aura of "Big Brother is watching you."

Electronic eavesdropping is not only a questionable use of power, but it can accentuate negative feedback and lead to the overuse of punishment to boost performance.

12.3.1 Role of Organizational Culture in Ethics

Business ethics, as we have learnt before, is the application of ethical values to business behaviours. It applies to the code of conduct of an organization and, therefore, relates to its culture. Literature has suggested three sources of business ethics, that is, structure and culture of the organization, business category, and the culture of societal system that envelops the organization (Krishna and Tandan 2002).

As an organization grows and achieves success, the members of the organization begin to take things for granted, and values and norms drop out of conscious awareness and tend to become basic assumptions. In such circumstances, any organization that promotes ethical norms will generate ethical behaviours from their employees and the one which does not do so becomes unethical. It has been mentioned earlier that the role of leadership is very important in shaping the culture of an organization (Sherwood 1988). If the leader or the top management exhibits correct behaviour, it helps to foster ethical behaviours in organizations. The role of ethical leadership has been recognized recently by Ciulla (1998). In a decision-making situation the choice made by the leader is governed by his ethical orientation. Few universally accepted principles that govern the issue of ethics and morality in organizations are fairness, honesty, integrity, trustworthiness, respect, and citizenship (Beauchamp and Bowie 1988; Kouzes and Posner 1995). These principles are the guideposts that influence their ethical conduct. Thus, ethical behaviours of managers in an organization influence and reflect its culture.

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Ethical decisions taken by the leader became the defining moments for the organization (Srinivasan 2003). They have a profound impact on the culture of the organization as they are the real reflection of what an organization actually does rather than what it proposes to do. They give an impression to the employees and the market outside about the real culture of the organization.

12.3.2 Ethics Committee in the Organization

With the increase in the significance laid upon ethics in management practices in recent times, ethics committees are gaining prominence in several organizations. Ethics committee are made internally with executives from different departments of the organization. The main role of the ethics committee in any organizational can be summed up as follows:

- **Compliance:** One of the most basic functions of ethics committee in an organization is to ensure that ethical principles of functioning in different departments in tune with the company policies and standards. It is relevant in all departments to ensure that all the activities which are undertaken in an organization follow the code of ethics and all the rules and regulations.
- **Review and Discipline:** Ethics committee in an organization needs to make sure that it takes corrective and appropriate action whenever there is a violation of ethics in any department of the organization as per the company policies. Apart from doling out punitive actions, the ethics committee must also ensure that they are reviewing any loopholes in the overall policy and suggesting changes to the required authority in the interest of all the employees in the organization.
- **Conflict resolution:** When various departments work together in an organization, there are bound to be conflicts related to varied issues and between different levels of employees. The ethics committee in such cases steps in as an arbitrator to resolve the conflict as per the company guidelines and set up new guidelines in areas where work has not been done.
- **Feedback:** The ethics committee also needs to keep the ethical policies of the company updated and not wait for conflicts or loopholes to spring up. It is within the ethics committee's ambit to get input from different levels of management and incorporate positive recommendations.
- **Awareness:** It is the ethics committee's function to organize sessions and make the employees aware of their duties and rights.

Check Your Progress

4. State one of the greatest dangers of unethical management.
5. List some of the universally accepted principles that govern the issue of ethics and morality in organizations.

12.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. It is business ethics that enables the leaders and employees to act in times of crisis and confusion in the business.
2. The two types of unethical problems in a business are: managerial misbehavior and moral mazes.
3. Locus of control reflects an individual's understanding of the control they have over life's events.
4. One of the greatest dangers of unethical management is that decisions are made without anticipating the negative consequences.
5. Few universally accepted principles that govern the issue of ethics and morality in organizations are fairness, honesty, integrity, trustworthiness, respect, and citizenship.

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12.5 SUMMARY

- Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling goods. Business ethics and values are important for the successful development of a business organization.
- Business ethics generally deals with what is right or wrong in the business.
- While integrity is a way to find meaning in business activities through a professional approach, one aims to do good to others, not harm. Thus, business and business corporations need to have professional ethics and professional management. This principle of ethics requires management to invest in ethics and all those supportive systems that help to have and secure the benefits of ethics in the organization.
- The very purpose of management is to steer us clear from daily ethical problems. Otherwise, why management? Yet management is firmly entangled in ethical problems. In short, one cannot be a professional manager and participate in the values of professional management if one is not ethically aware, does not have an ethical identity and cannot hold an ethical dialogue.
- Ethics is one of the dimensions of the decision-making process. Ethics is absent when no moral issue is associated with the decision. It becomes relevant when a moral issue surfaces.
- Two conditions are necessary for a manager to consistently include ethics in the decision-making process. First, the organizational culture must support

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ethical decision-making. Second, the manager must possess tools for evaluating the ethical dimensions of a decision. A manager has little influence on the culture of the organization. But he has a great deal of control over the tools available for evaluating decisions. A culture that supports ethical decision-making will encourage managers to secure the necessary tools to function successfully within the culture.

- Ethical management is essentially unselfish and not prone to self-serving politics. Ethical management does not believe in compromising performance; in fact, it promotes enduring self-interest.
- Ethical managers support their people, recognize their accomplishments, are sensitive to their fears and needs, communicate confidence in the organization's purpose and products, and use power and politics in a justifiable way.
- As an organization grows and achieves success, the members of the organization begin to take things for granted, and values and norms drop out of conscious awareness and tend to become basic assumptions.
- With the increase in the significance laid upon ethics in management practices in recent times, ethics committees are gaining prominence in several organizations. Ethics committees are made internally with executives from different departments of the organization. The main role of the ethics committee in any organization can be summed up as follows: compliance, conflict resolution, review, awareness, etc.

12.6 KEY WORDS

- **Ethics:** In business, it refers to a code of standard by which one can determine what is wrong and what is right for the business enterprise.
- **Moral mazes of management:** It refers to ethical problems such as conflicts of interest, misconduct of contracts and agreements and the illegal use of resources.
- **Moral approbation:** It is the desire to avoid moral disapproval. Human beings have a need to be moral. This need may be biological, social or religious. It motivates individuals to gain moral approval from others and to avoid moral disapproval.
- **Ethical management:** It is essentially unselfish and not prone to self-serving politics. Ethical management does not believe in compromising performance; in fact, it promotes enduring self-interest.

12.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. Write a short note on moral approbation.
2. What is a total benefit test?
3. Explain the decision support model.
4. What is the role of ethics committee in an organization?

Long Answer Questions

1. Describe the benefits of business ethics.
2. Explain the holistic approach for managers in decision-making.
3. Discuss the relevance of values in management.
4. Describe the role of organizational culture in ethics.

12.8 FURTHER READINGS

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UNIT 13 CONTROLLING

NOTES**Structure**

- 13.0 Introduction
- 13.1 Objectives
- 13.2 Controlling: Meaning and Objectives
 - 13.2.1 Process of Control
- 13.3 Devices of Control
 - 13.3.1 Requirements of Effective and Integrated Controls
- 13.4 Special Control Techniques/Perspectives in Device Controls
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- 13.5 Answers to Check Your Progress Questions
- 13.6 Summary
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13.0 INTRODUCTION

This unit introduces you to controlling. Control is one of the most important functions of management, second perhaps, only to the function of decision-making. Control has very broad applications both in the personal as well as industrial world, which ensures that events turn out the way they are intended to. Control is a powerful force if applied properly. For example, energies like nuclear power and controlled air and water run machines and industries. Control is a set of mechanisms used to evaluate the organizational performance against the set standards. When deviations occur, appropriate steps are taken to correct these deviations to ensure that the organization stays on course. This unit discusses the concepts, characteristics and techniques involved in managerial control.

13.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the meaning and importance of managerial control
- Discuss the creation of standards against which performance is measured
- Learn about the various types of performance evaluation
- Explain some of the devices used in measuring performance
- Discuss some of the characteristics of effective controls
- Know about the different types of managerial control techniques

13.2 CONTROLLING: MEANING AND OBJECTIVES

Control is very important in both organized living as well as ‘living’ organizations. When things go smoothly as planned, they are considered to be under control. ‘Self-control’ is a word we are all familiar with and which simply means that we discipline ourselves in such a manner that we strictly adhere to our plans for our lives and generally do not deviate from these plans. Controls are there to ensure that events turn out the way they are intended to. It is a dynamic process, requiring deliberate and purposeful actions in order to ensure compliance with the plans and policies previously developed. This means that the managerial functions of planning and controlling are very closely related. Without proper controls, planning itself has little meaning. According to Robert L. Dewelt, the importance of the planning process is quite obvious. Unless we have a sound chartered course of action, we will never quite know what actions are necessary to meet our objectives. We need a map to identify the timing and scope of all the intended actions. This map is provided through the planning process. However, simply making a map is not enough. If we do not follow it or if we make a wrong turn along the way, chances are we will never achieve the desired results. A plan is only as good as our ability to make it happen. We must develop methods of measurement and control to signal when deviations from the plans occur so that corrective action can be taken. The interrelationship between the functions of planning and controlling is clearly evident. Planning involves the establishment of the organization objectives and the development of strategies, while controlling establishes standards of performance and compares the actual results with the planned results to determine whether operations are being performed according to plans.

Objectives

A good budgetary control technique should have the following essential features:

- **Prompt feedback:** A good budgetary control technique should be able to give prompt feedback concerning actual performance to the managers. This can enable them to take quick actions to rectify and correct deviations.
- **Clear-cut goals:** Budgetary goals should be laid in definite terms for accurate calculation and analysis of results.
- **Responsibility accompanied by authority:** Besides the responsibility to achieve budgetary targets, the concerned employees must be given the required authority to apply the budgetary control technique.
- **Comparison:** Comparisons between the budgetary targets and functioning results must be carried on from time to time. This facilitates early discovery of deviations and minimizes possibility of loss.
- **Flexibility:** Budgets should be open to changes and review according to changing market conditions. A good budgetary control technique should permit considerable freedom to the person utilizing it.

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- **Harmonious participation:** As a budget is a unified action, it should be prepared in consultation with the employees. This will improve the level of understanding the budget in the organization.

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13.2.1 Process of Control

A business organization should be able to tailor controls suited to the particular plan or manager. Controls should be designed keeping in mind certain elements that a control process must constitute.

According to Robert J. Mockler:

Management control is a systematic effort to set performance standards with planning objectives, to design information feedback systems, to compare actual performance with these pre-determined standards, to determine whether there are any deviations and to measure their significance, and to 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.

Mockler's definition divides the process of control into four steps. These steps are described as follows:

Establishing Standards

The control process begins with the establishment of standards of performance against which organizational activities can be compared. These are levels of activities established by management for evaluating performance. These standards must be clearly specified and understood by all organizational members without ambiguity. They should be defined in measurable terms, wherever possible, such as physical units produced over a period of time, profit to be made per unit and so on. Vaguely worded standards or general goals such as 'better skills' or 'high profits' are difficult to interpret and hence lead to confusion and conflict. For example, the goal of a real estate broker may be to sell four houses per month. He can then plan the month and monitor his performance. Similarly, a vice-president in charge of production may have a goal of keeping the production cost within the assigned budget over a period of time. In attaining such a goal, he will be able to monitor the costs and take corrective actions wherever it is necessary. In another example, a college professor may have set a goal of covering ten units from a book over a period of one semester. He can plan his schedule of teaching accordingly to meet that goal. These precisely-stated standards, goals and objectives facilitate communication with all persons making the control process easier to monitor.

There are situations where it is not possible to quantify standards such as in the case of high morale, community relations, discipline or creativity. In such cases, all efforts should be made to fully understand these qualitative goals and design control mechanisms that would be useful in measuring performance in these situations. Most of these control mechanisms would be subjective in nature and decisions would be made on the basis of experience, analytical observations and intuitive judgments.

Measuring Performance

Once the standards have been established, the second step in the controlling process is to monitor and measure the actual performance. Monitoring and measuring is a continuous activity and involves collection of relevant data that represents the actual performance of the activity so that a comparison can be made between what is accomplished and what was intended to be accomplished. The measurement of actual performance must be in the units similar to those of predetermined criterion. The unit or the yardstick thus chosen should be clear, well-defined and easily identified and should be uniform and homogeneous throughout the measurement process.

Measuring Devices

One of the most difficult tasks in measuring actual performance is the selection of an appropriate measure. It is very important that all performance measures used in controlling organizational and individual performances be both valid as well as reliable. Validity reflects as to how good the performance measure is and reliability describes as to how consistent such performance measure is in obtaining results. The methods of measurement established would answer the question, ‘What, how and when to measure?’

The organizational objectives would determine as to ‘what’ is to be measured. ‘How’ to measure the outcome of an activity would depend upon the type of activity and whether continuous measurement or only spot checks are required. The type of activity would also determine as to ‘when’ measurement would take place. For example, some professors measure the performance of students only by one final examination while other professors give frequent quizzes during the semester of studies.

Some of the measuring devices used are as follows:

- (i) **Mechanized measuring devices:** This involves a wide variety of technical instruments used for measurement of machine operations, product quality for size and ingredients and for production processes. These instruments may be mechanical, electronic or chemical in nature. Some electronic devices are used to check passengers at the airport for carrying prohibited items, while some are used to detect shoplifting and unchecked books from the library. Polygraph tests are used to check people’s explanations for certain acts.

Computers are becoming increasingly important as measuring devices. They can monitor operations as they occur and simultaneously analyze data so collected. Many retail stores use computerized scanning equipment that simultaneously monitors sales and prices of various items and tracks inventory by department, vendor and branch store.

- (ii) **Ratio analysis:** Ratio analysis is a powerful management tool for measuring various aspects of business operations. It describes the

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relationship of one business variable to another. The following are some of the more important ratios.

- (a) *Net sales to working capital*: The working capital must be utilized adequately. If the inventory turnover is rapid, then the same working capital can be re-used. Hence, for perishable goods, this ratio is high. Any change in this ratio will signal a deviation from the norm.
 - (b) *Net sales to inventory*: The greater the turnover of inventory, generally, the higher the profit on investment.
 - (c) *Current ratio*: This is the ratio of current assets (cash, accounts receivables) to current liabilities and is used to determine a company's ability to pay its short-term debts.
 - (d) *Net profit to net sales*: This ratio measures the short run profitability of a business.
 - (e) *Net profit to tangible net worth*: Net worth is the difference between tangible assets and total liabilities. This ratio of net profit to net worth is used to measure profitability over a long period of time.
 - (f) *Net profit to net working capital*: The net working capital is the operating capital on hand. This ratio would determine the ability of the business to finance day-to-day operations.
 - (g) *Collection period on credit sales*: The collection period should be as short as possible. Any deviation from established collection periods should be promptly investigated.
- (iii) Comparative statistical analysis:** The operations of one company can be usefully compared with similar operations of another company or with industry averages. It is a very useful and practical performance measuring methodology. For example, farmers can compare output per acre with farmers at other locations. Any differences can be investigated and the reasons for such differences can be ascertained. Similarly, hospitals at one location can measure their medical costs against those of other hospitals, and the performance of police departments can be measured by comparing crime rates in their locality with those in other localities. Statistical models can be used for such measurements and such comparisons.
- (iv) Personal observation:** Personal observation, both formal as well as informal can be used in certain situations as a measuring device for performances, especially the performances of personnel. The informal observation is generally day-to-day routine type. A manager may walk through a store to get a general idea about how people are working. An airline officer may fly incognito to evaluate the performance of inflight attendants.

Formal observation is properly planned and requires preparation. For example, professors are periodically evaluated by their peers and their students. The in-flight performance of commercial airline pilots is regularly measured by representatives of Federal Aviation Agency (FAA).

Comparing Measured Performance with Performance Standards

The next step in the control process is to compare actual performance to the standards set for such performance. This comparison is less complicated if the measurement units for the standards set and for the performance measured are the same and are quantitative in nature. Such comparison becomes more difficult when they require subjective evaluations.

The comparison shows us if anything has gone wrong in the process or operations; if there is any deviation, negative or positive and what must be done as a restorative process for correcting such a deviation. Furthermore, this comparison not only results in the correction of the divergence, but also ensures the application of the preventive steps which could guide the conduct of operations in the future.

Evaluation of deviation: Before a deviation is corrected, a thorough investigation should be undertaken regarding the reasons for such a deviation. The management should look not for symptoms but for the root cause of the problem. Some of the questions to be looked into are:

- Were these deviations due to unrealistic standards?
- Could the suppliers have shipped faulty materials?
- Are the operators less efficient, dishonest about results or misinformed about applicable standards?
- Is the equipment in poor condition?
- Is the quality control department doing an adequate job?

There are many instances where projects have gone over the budget and have been delayed. In such cases, these projects should be examined in their entirety and from all angles in order to determine the root cause of such a discrepancy.

Deviations can be of two types, namely negative and positive.

- (i) **Negative deviations.** Negative deviations are those that have negative repercussions and may be in the form of cost overruns or the project being behind schedule or the quality or quantity of the product being below the expected standards.
- (ii) **Positive deviations.** Positive deviations indicate that the performance was better than expected and the goals achieved were either earlier than anticipated or less costly than planned. These positive deviations should also be fully investigated as to why underestimations were made so that new revised estimates can be established.

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Taking Corrective Action

Once the deviations have been detected and presented to the management for consideration, the decision must be taken as to what corrective actions are needed to remedy the situation. However, these corrective actions must be taken within the constraints of acceptable tolerance levels, outside environmental constraints such as those imposed by organizational culture or guidelines, labour unions, political and economic considerations and internal constraint of cost and personnel.

Since the actual results do not always conform to the desired results, some deviations may be expected for which no corrective action may be needed. However, when deviations are of a sufficiently serious nature, the following actions may be taken.

- Management must deal with the root causes of the problems and not the symptoms.
- Any corrective action should be taken promptly in order to make it most effective.
- Whenever and wherever possible, the corrective action should be built into the existing operations and these controls should be self-monitoring, i.e., the actions should be automatic such as in the case of a thermostat in controlling the heat. (This field is known as ‘cybernetics’).
- It must be understood that the goal itself is not a static phenomenon, but is a function of the dynamics of the environment. Hence a look into the need for altering the target itself caused by shifts in the environment may be necessary.

Check Your Progress

1. How is planning and control related?
2. How good is ratio analysis as a measuring device?

13.3 DEVICES OF CONTROL

Feed-forward controls

These controls are also known as pre-controls and are basically preventive in nature. The control takes place before a work is performed. In this regard, management creates policies, procedures and rules aimed at eliminating behaviour that can cause undesirable work results. These controls are designed to eliminate the cause of any deviation that might occur later in the process. For example, a thorough quality control on the input raw materials would be considered as a feed-forward control. This would eliminate problems in production or output that could be due to faulty raw materials. Similarly, if a student is doing poorly in

course at the beginning of a semester, he should not wait until the end of the term to make changes in his study habits. He must make adjustments before it is too late.

These controls are meant to make sure that performance objectives are clear and all resources are available at the time when needed in order to attain these objectives.

Feedback controls

Also known as post-action control, feedback controls measure results from completed action. The result of the completed activity are compared with pre-determined standards, and if there are any deviations, corrective action can be taken for future activities. For example, a restaurant manager may ask you how you liked the food after your dinner and take your suggestions into account to improve the meals.

These controls help explain as to what really happened during the process of achieving the output. For example, if the actual expenses for office supplies exceed the budgeted expenses for a given year, then the reason for such a difference can be investigated and in the light of this feedback the budget for the following year can be revised or controlled.

One advantage of feedback control is that it enhances employee motivation. People want information as to how well they have performed and feedback control provides this information.

13.3.1 Requirements of Effective and Integrated Controls

Controls at every level focus on inputs, processes and outputs. It is very important to have effective controls at each of these three stages. Effective control systems tend to have certain common characteristics. The importance of these characteristics varies with the situation, but in general, effective control systems have the following essential characteristics.

- **Accuracy:** Effective controls generate accurate data and information. Accurate information is essential for effective managerial decisions. Inaccurate controls would divert management efforts and energies on problems that do not exist or have a low priority and would fail to alert managers to serious problems that do require attention.
- **Timeliness:** There are many problems that require immediate attention. If information about such problems does not reach management in a timely manner, then such information may become useless and damage may occur. Accordingly, controls must ensure that information reaches the decision makers when they need it so that a meaningful response can follow.
- **Flexibility:** The business and economic environment is highly dynamic in nature. Technological changes occur very fast. A rigid control system would

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not be suitable for a changing environment. These changes highlight the need for flexibility in planning as well as in control. Strategic planning must allow for adjustments for unanticipated threats and opportunities. Similarly, managers must make modifications in controlling methods, techniques and systems as they become necessary. An effective control system is one that can be updated quickly as the need arises.

- **Acceptability:** Controls should be such that all people who are affected by it are able to understand them fully and accept them. A control system that is difficult to understand can cause unnecessary mistakes and frustration and may be resented by workers. Accordingly, employees must agree that such controls are necessary and appropriate and will not have any negative effects on their efforts to achieve their personal as well as organizational goals.
- **Integration or Integrated control:** When the controls are consistent with corporate values and culture, they work in harmony with organizational policies and hence are easier to enforce. These controls become an integrated part of the organizational environment and thus become effective.
- **Economic feasibility:** The cost of a control system must be balanced against its benefits. The system must be economically feasible and reasonable to operate. For example, a high security system to safeguard nuclear secrets may be justified but the same system to safeguard office supplies in a store would not be economically justified. Accordingly, the benefits received must outweigh the cost of implementing a control system.
- **Strategic placement:** Effective controls should be placed and emphasised at such critical and strategic control points where failures cannot be tolerated and where time and money costs of failures are greatest. The objective is to apply controls to the essential aspect of a business where a deviation from the expected standards will do the greatest harm. These control areas include production, sales, finance and customer service.
- **Corrective action:** An effective control system not only checks for and identifies deviation but also is programmed to suggest solutions to correct such a deviation. For example, a computer keeping a record of inventories can be programmed to establish 'if-then' guidelines. For example, if inventory of a particular item drops below five per cent of maximum inventory at hand, then the computer will signal for replenishment of such items.
- **Emphasis on exception:** A good system of control should work on the exception principle, so that only important deviations are brought to the attention of management. In other words, management does not have to bother with activities that are running smoothly. This will ensure that managerial attention is directed towards error and not towards conformity. This would eliminate unnecessary and uneconomic supervision, marginally beneficial reporting and a waste of managerial time.

Check Your Progress

3. What are feed-forward controls?
4. Where should effective controls be placed?

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13.4 SPECIAL CONTROL TECHNIQUES/ PERSPECTIVES IN DEVICE CONTROLS

The process of planning and controlling go hand in hand in the management of any organization. This necessitates the implementation of certain managerial control techniques that help to determine whether activities are executed according to plans. The various techniques of managerial control can be classified into two categories:

- (i) Traditional control techniques
- (ii) Modern control techniques

13.4.1 Traditional Control Techniques

The traditional control techniques can be further classified into:

- (i) Budgetary Control
- (ii) Non-Budgetary Control

Meaning of budgetary control

Budgetary control is a method that sets performance requirements through the preparation of budgets. It calculates and compares actual results with corresponding budget data and takes necessary actions to correct the deviations. The process consists of preparing and utilizing budgets to evaluate actual operations. Budgets can be of several types like production budget, sales budget, cash budget, master budget, etc.

Non-budgetary control techniques

The following are various non-budgetary control techniques:

- **Personal observation:** This is the most effective means of control that helps to avoid unruly situations. Deviations are discovered much earlier and promptly corrected in this technique. It enhances motivation and morale among the employees of the organization.
- **Statistical data:** Data presented in the form of charts, graphs and diagrams provide a quick understanding of the problem. This technique is, therefore, used more often for managerial control. They are applied specifically in the field of quality control.

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- **Special reports:** Special reports prepared by experts through special investigation are useful in specific cases. This is because; sometimes, routine statistical and accounting reports are not satisfactory for control.
- **Internal audit:** Internal audit provides a recurrent review of the activities and accounts of an organization by its own staff. It helps to analyse the effectiveness of plans and methods of work in comparison with the organizational activities. It also helps in avoiding mistakes and frauds.
- **Ratio analysis:** The control of the total functioning in an organization becomes possible by an analysis of the profitability, liquidity and solvency ratios. For example, the 'Financial Statement Analysis' facilitates diagnosing the suitability of a business venture.
- **Break-even analysis:** The break-even analysis is an analysis of the inter-relationship between cost, volume and profit. The break-even chart graphically represents the relationship between costs, volume and profits.
- **Standard Costing:** Standard costs refer to predetermined costs used as standards for calculating actual performance. A standard cost helps to distinguish between controllable and uncontrollable costs.

13.4.2 Contemporary Control Techniques

With the changing times, many new techniques and methods of managerial control have been developed to enhance the control of complex events. These techniques are based on an integrated approach towards the planning and control functions. The different modern techniques of managerial control are as follows:

- Return on Investment
- Human Resource Accounting
- Management Audit
- Responsibility Accounting
- PERT/CPM

Return on Investment (ROI)

Alternatively called as Rate of Return, this technique can be used for both planning and controlling objectives. It is derived from a ratio between the total profit and the total investment of an organization. Return on Investment helps to evaluate the functioning of an organization in the light of its total profit earned so far. Besides profit planning, this technique is also useful and suitable for capital budgeting in particular and for long-term investment.

Advantages of ROI

ROI has the following advantages:

1. ROI helps to know whether the resources are employed effectively or not.
2. It concentrates on the basic objective of business, namely profit earning.

- ROI facilitates decentralization of authority. By defining a target rate of return for each department, it provides possible autonomy of management to departmental heads.

Disadvantages of ROI

ROI also suffers from certain disadvantages:

- In case of frequent price changes, it becomes difficult to calculate it.
- Being a short-term concept, the aim to increase current ROI makes managers ignorant of long-term investment like research and development, executive development, etc., of the organization.

Human resource accounting

Most control techniques calculate financial performance in terms of costs, profits, revenue and other such concrete factors. However, the most important contributing factor, viz. human resources, is overlooked in these techniques. The Human Resource Accounting technique by Likert helps in the calculation of human resources. This technique involves:

- Accounting for people as an organizational resource
- Involving measurement of the cost incurred in the acquisition and development of human assets and
- The measurement of economic value of employees to an organization.

The value of any individual or employee is defined in this technique, in terms of the contemporary worth of the various services he is supposed to provide to the organization. This value is known as 'Individual's Expected Realisable Value'. (IERV)

Advantages of human resource accounting

Human resource accounting has the following advantages:

- This technique provides a sound basis for planning and controlling human resources.

Disadvantages of human resource accounting

The disadvantages of human accounting are as follows:

- No general, dependable standards of human resource measurement are available.
- The technique tends to reduce human qualities to sheer monetary values.

Management Audit

Management audit can be defined as an independent and critical evaluation of the total managerial process. It records the deviations from the principles and practices of effective management at different levels of organization. Then the impact of these deviations on the organization and on end results is noted.

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Advantages of management audit

Management audit has the following advantages:

1. No well-defined principles and procedures are available.
2. There is shortage of well-qualified management auditors.
3. Absence of an objective and independent approach to the audit.

Responsibility accounting

In this technique, costs are accumulated and reported by levels of responsibility. Accounting statements are created for all levels of management. These statements are designed for the operating people, to control their operations and costs.

Responsibility Accounting classifies organizational management into responsibility centres. A responsibility centre is an organizational segment such as division, department or section led by a manager who is responsible for specified targets of performance. There are four types of responsibility centres:

- **Cost centre:** A cost centre measures financial performance by noting whether the assigned tasks are done within the planned expense amount.
- **Profit centre:** A profit centre measures the financial performance according to the achieved budgeted profit.
- **Revenue centre:** The revenue centre measures the financial performance by noting if the specific segment has achieved the budgeted levels of sales revenue.
- **Investment centre:** In the investment centre a manager is held responsible for effective use of invested capital or for the planned return on investment.

Network techniques: PERT and CPM

Network techniques are recent developments applied in management planning and control of an organization. These techniques apply the network theory of scheduling problems. In a network, complex projects are divided into a series of activities performed sequentially. PERT and CPM are the two most popular network techniques. The two techniques are based on the same principles yet differ in some respects.

PERT stand for Program Evaluation and Review Technique. It was developed by U.S. Navy in 1957-58 in connection with Polaris weapons system. It is a visual network and is most appropriate for controlling complex, unique, nonrecurrent and large projects where multiple organizations are involved with a complicated network of interdependencies. These projects may be building large weapon systems, skyscrapers, dams, ships, airport facilities and so on.

PERT displays graphically a project's activities, provides estimates of how long the project and its component activities will take, indicate as to which activities

are most critical at the time of project completion and suggest how long an activity within the project can be delayed without delaying the entire project.

Although PERT and CPM were developed separately and originally there were many differences between the two, over time these project planning techniques have become almost identical. CPM also is a display of a complex project as a network, with one “time estimate” used for each step in the project, as compared to PERT where three “time estimates” are used. In this technique the times and cost of activities are known. It accommodates situations in which sets of standardized activities are a part of the project for which the times for completion of these activities can be more accurately calculated. However, since there is only one time estimate, which may or may not be accurate, the probability for completing the project on time is difficult to compute. In all other aspects PERT and CPM are similar.

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Check Your Progress

5. What are the various categories of managerial control?
6. Define management audit.

13.5 ANSWERS TO ‘CHECK YOUR PROGRESS’

1. Control is a dynamic process, requiring deliberate and purposeful actions in order to ensure compliance with the plans and policies previously developed. This means that the managerial functions of planning and controlling are very closely related.
2. Ratio analysis is a powerful management tool for measuring the various aspects of business operations. It describes a relationship between one business variable and another. For example, net sales to working capital ratio determine whether working capital is being utilized adequately. The current ratio determines the company’s ability to pay its short-term debts. Similarly, the ratio of net profit to net working capital determines the company’s ability to finance day-to-day operations. There are many other financial ratios which determine various aspects of business viability.
3. Feed-forward controls are also known as pre-controls and are basically preventive in nature.
4. Effective controls should be placed and emphasised at such critical and strategic control points where failures cannot be tolerated and where time and money costs of failures are greatest.
5. The various techniques of managerial control can be classified into two categories:
 - (i) Traditional control techniques
 - (ii) Modern control techniques

- 6. Management audit can be defined as an independent and critical evaluation of the total managerial process.

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13.6 SUMMARY

- Control is necessary to ensure that the actual results of an activity do not deviate from the expected results of the same activity.
- The function of control is to accomplish organizational goals by implementing previously determined strategies and policies so that whatever needs to be done is done properly. In other words, control maintains equilibrium between means and ends or between efforts and output.
- The process of control involves establishing standards for outcomes of activities, assuring performance of workers in relation to such activities by employing such measuring devices as previously determined to be suitable and relevant to measuring such performance, comparing such measured performance with performance standards previously set, noting any deviations—positive or negative—and taking corrective actions for any negative deviations. Positive deviations should also be investigated to determine as to why underestimations were made so that new revised estimates could be established.
- The process of planning and controlling go hand in hand in the management of any organization. This necessitates the implementation of certain managerial control techniques that help to determine whether activities are executed according to plans.
- Feed forward controls are meant to make sure that performance objectives are clear and all resources are available at the time when needed in order to attain these objectives.
- Also known as post-action control, feedback controls measure results from completed action.
- The various techniques of managerial control can be classified into two categories:
 - (i) Traditional control techniques
 - (ii) Modern control techniques
- Management audit can be defined as an independent and critical evaluation of the total managerial process.
- Network techniques are recent developments applied in management planning and control of an organization. These techniques apply the network theory of scheduling problems.

13.7 KEY WORDS

- **Management control:** It refers to a systematic effort to set performance standards with planning objectives.
- **Cost standards:** It refers to standards that indicate the financial expenditure involved per unit of activity.
- **Quality standards:** It refers to standards express levels of quality expected of a product or service.
- **Budgetary control:** It is the process of determining various actual results with budgeted figures for the enterprise for the future period and standards set then comparing the budgeted figures with the actual performance for calculating variances, if any.

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13.8 QUESTIONS AND EXERCISES

Short Answer Questions

1. Explain the requirements of a good budgetary control technique
2. Describe the prerequisites of effective control.
3. Write a short-note on feedback control.
4. Discuss some of the characteristics of effective controls.

Long Answer Questions

1. Describe some of the quantitative standards against which performance can be measured. Which of these standards would be more appropriate for a medium size industry?
2. Describe the different methods of comparing the actual results with expected results for the purpose of evaluating the effectiveness of control systems.
3. Discuss the traditional techniques of managerial control.
4. Explain the modern techniques of managerial control.

13.9 FURTHER READING

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UNIT 14 NEW PERSPECTIVES IN MANAGEMENT

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Structure

- 14.0 Introduction
- 14.1 Objectives
- 14.2 Strategic Alliances
 - 14.2.1 Strategic Alliance Formation Process
 - 14.2.2 Advantages of Strategic Alliances
- 14.3 Core Competence
 - 14.3.1 Core Competence and Competitive Advantage
- 14.4 Business Process Reengineering
- 14.5 Total Quality Management
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14.0 INTRODUCTION

In light of the changing business scenario structured on globalization and privatization, management practices around the world have undergone immense transformation. Organizations have undergone rapid progress under new managerial perspectives by the application of innovative management strategies, such as business process reengineering, Total Quality Management (TQM), Six Sigma, benchmarking and balanced scorecard. In this unit, you will learn about various perspectives in management prevalent in the present times.

14.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the concept of strategic alliances
- Discuss the various forms of core competence

- Explore the facets of business process reengineering
- Analyse the elements of business process reengineering
- Understand the aspects of Total Quality Management, six sigma, benchmarking and balanced scorecard

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14.2 STRATEGIC ALLIANCES

Strategic alliances imply the association of more than one party aimed towards the attainment of specific objectives or fulfillment of essential business requirements, simultaneously maintaining organizational autonomy.

Partner companies offer strategic alliances with respect to certain resources, such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. These alliances are primarily based on cooperation aiming at a synthesis that profits the participating members more than individual efforts. Strategic alliances also involve technological transmission, access to informational and financial specialization and economic support.

Different terminologies present various types of strategic partnering, such as ‘international coalitions’ (Porter and Fuller, 1986), ‘strategic networks’ (Jarillo, 1988) and, ‘strategic alliances’. Their meaning varies on the basis of the organizational context.

14.2.1 Strategic Alliance Formation Process

A typical strategic alliance formation process involves the following steps:

- **Strategy development:** This stage of strategy development constitutes the study of the alliance’s scope, goals and rationale, highlighting the chief concerns and obstacles. This further involves the formulation of resource techniques for production, technology, and human resource. This involves synthesizing the goals of the alliance with the general organizational strategy.
- **Partner evaluation:** This requires an analysis of a potential partner’s strengths and shortcomings, leading to creation of effective techniques in order to synergize different managerial styles. This stage also focuses on the preparation of suitable selection criteria and recognizing a partner’s purpose for entering in an alliance and identifying the gaps in resource capability of a partner firm.
- **Contract negotiation:** This stage focuses on predetermining if the parties have practical goals. Thus, competitive negotiation task forces are formed in order to define what each partner offers as well as to safeguard any

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proprietary information, address termination clauses, decide penalties for bad performance, and emphasizing the arbitration procedures involved.

- **Alliance operation:** This stage focusses on identifying the managerial commitment, locating the capability of the resources committed to the alliance, collaborating budgetary functions and resources with strategically aligned objectives, gauging and awarding alliance performance, and evaluating the performance and results of the alliance.
- **Alliance termination:** Termination of alliances constitutes of winding down the alliance.

14.2.2 Advantages of Strategic Alliances

Strategic alliances offer the following benefits:

1. Encouraging partners to focus on functions that best match their capabilities
2. Helping partners in gaining knowledge and information through mutual cooperation and developing multiple competences
3. Providing varied resources and competence

14.3 CORE COMPETENCE

A core competence refers to a particular aspect that an organization views as fundamental to the organizational environment. Core competence needs to satisfy the following criteria:

- Unique to the organization and difficult for other firms to copy
- Advantageous to varied products and markets
- Contributory to the advantages offered for a dynamic consumer experience

A core competency may be of various kinds, such as technical knowledge, reliable process and/or close relationships with customers and suppliers. Further, it may constitute product development or culture, such as employee commitment.

Core competence primarily implies specific advantages offered by an organization in comparison to its competition, in terms of value additions unique to the industry. It involves organizational learning, coordination of diversified production skills and integration of varied technological streams.

An example of core competence of Walt Disney World - Parks and Resorts, reveals the following core competencies:

- Animatronics and Show Design
- Storytelling, Story Creation and Themed Atmospheric Attractions
- Efficient operation of theme parks

14.3.1 Core Competence and Competitive Advantage

A core competence develops from a specific set of skills or production methods that bring value to the customer. Such competences allow an organization to access a wide variety of markets. Core competencies lead to the development of core products which further can be used to build many products for end users. Core competencies are developed through the process of continuous improvements over the period of time. If an enterprise wants to succeed in an emerging global market, it has to build core competencies. Core competences need to be integrated using strategic architecture in view of changing market requirements and evolving technologies. Management need to realize that stakeholders to core competences are an asset which can be used to integrate and develop the competencies. Competence building is the result of strategic architecture which must be enforced by top management so that its full capacity is exploited.

The management should develop the industry foresight needed to adapt to industry changes, and find out ways of controlling resources that will enable the company to attain goals despite restraints. Executives need to build up a point of view on which core competencies can be created for the future to revitalize the process of new business creation. Development of an independent point of view about tomorrow's opportunities and creation of capabilities that exploit them are the keys to future industry relationship.

Core competences are intangible resources of a company. They are difficult and challenging to achieve. It is even critical to manage and enhance the competences with reference to industry changes and their future.

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14.4 BUSINESS PROCESS REENGINEERING

Sometimes in order to develop a good information system that will serve the purpose of management even in the future, it becomes very essential to have a relook at the way business processes are conducted in a firm. The rationale for this is that the manner in which business is conducted changes with time and an information system that is designed over such out dated business processes would not provide any worthwhile value to managers. Business organizations are a continuing entity but the products or services that they offer change with time. Even the manner in which it conducts business changes with time. New ways of doing business emerge over time. New markets emerge. New products and services emerge. New geographies emerge. New technologies emerge. All this changes the organization fundamentally. If however, the organization continues to engage with its customers (internal as well as external) in the same way as it had been doing in the past then it risks losing business and efficiency. It has to change its process to remain

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competitive. However, organizations cannot change individual processes on an ad hoc basis and neither can they change the processes in isolation. Concerted efforts are required and a complete scientific exercise is required to change processes of doing business and to ensure, at the same time, that the business does not suffer from this changed effort. This scientific exercise of overhauling the process of doing business is called **business process reengineering (BPR)**.

Sometimes BPR is resorted to even when there is no immediate trigger for change in the business process. Most BPR exercises are conducted when a system is being designed for the business. Sometimes, in order to develop a good information system which will serve the purpose of management even in the future. It becomes very essential to have a relook at the way business processes are conducted in a firm. The rationale for this is the manner in which business is conducted changes with time and the information system designed over such dated business processes would not provide any worthwhile value to managers.

BPR Model

As is evident, BPR is a scientific exercise comprising of a set of logical micro tasks. Therefore, it may be worthwhile to define the BPR exercise in the form of a model.

- Business objective definition—In this the goals of the business are crystallized. The goals may be cost reduction, time reduction, etc. Essentially in this stage the BPR team must identify the major driver for the processes in the overall business perspective.
- Process identification—In this stage the critical process that helps in the attainment of the business objectives are identified and ranked according to their perceived importance in the overall business.
- Process evaluation—In this stage the process is examined in detail by first pictorial depiction the process (that may be done after actually passing through/seeing the process in action) and then finding out the areas that are redundant or can be made redundant after adequate use of managerial or technological intervention. In this stage the process is examined from a cost and time perspective which helps to understand the efficiency of the process. In most cases, this exercise results in process improvement.
- Process specification—In this stage process specifications are plotted in a process diagram.
- Prototyping—In this stage, a working model of the software that mimics the process is created in collaboration with the developers and the customers. This prototype acts as the basis for further development.

- Refinement—The feedback on the prototype is factored in the new design and a process of refinement of the prototype starts. This step may involve several stages of refinement to arrive at a fully functional system.
- This is a broad template that ensures that the BPR exercise is done systematically and not on an ad hoc basis.
- Process improvement—It is the activity of critically examining a process with the objective of making it more efficient. In most cases, it involves the shortening of the process, reduction of people handling the process, intervention of technology, changing the manner of doing tasks within the process, reduction of cycle time of tasks in the process and reduction in the cost of conducting the process. This is achieved by first examining the process and passing through it. Then a process map is created and bottlenecks and redundancies identified. These areas are then worked upon to make the process more efficient.

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14.5 TOTAL QUALITY MANAGEMENT

14.5.1 Definitions of TQM

TQM is a transformational process that touches all aspects of managing a business and all people in the company. It is not a simple quality management system; it is a management strategy to transform and change the organizational work culture for improvement in overall performances of the business. Many experts claim that TQM is a strategic tool for changing and revitalizing the organization for rapid growth and development. Though TQM brings about all-round improvements in the business processes by making the organization adaptive, flexible, nimble, responsive and creative, the consequences of TQM can be grouped into: *product and productivity related, process and process quality related, employee satisfaction related, cost and value related, customer satisfaction and market share related, and finally, business performance and competition related*. The most startling benefit of total quality comes from the culture of seeking continuous improvement in anything that is done in the organization and its focus to customer satisfaction.

It is said that the ‘goal of TQM is customer satisfaction and the means is continuous improvement’. TQM occurs when an entire organizational culture becomes focussed on quality and customer satisfaction through an integrated system of processes, tools, techniques and training. By adapting this total quality approach, many industries in post-War Japan, achieved revolutionary rates of business improvement. Since that time, TQM has become a global phenomenon.

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The key element in the journey for total quality is, therefore, the process of continuous improvement so as to work on the changing needs of customers and assuring customer satisfaction all the time. Customer satisfaction is an outcome of some efforts. Hence, the process of customer satisfaction demands planning for quality, execution of the planned processes for results, total commitment of the organization for customer satisfaction and measurement of results to verify that customer satisfaction has been achieved as per plan and target. Organizations have to combine, direct and integrate all activities, functions and processes towards achieving this goal of customer satisfaction in the organization. This is at the core of TQM practice, and to achieve this objective, all functions, activities and processes of the organization have to be designed, coordinated and integrated under the TQM system by following the principles of total quality management.

14.5.2 Principles of TQM

The principles governing the TQM system are:

- **‘Customer-oriented’ approach:** All activities and processes in the organization should be customer focused. This approach ensures that all are concerned with the customers’ needs and their efforts should be directed towards winning customer satisfaction.
- **Strategic planning and leadership:** For achieving the customer-focused quality targets in all activities and processes, senior management leadership should lead to strong ‘customer orientation’ in the organization and be willing to make long-term commitments to its customers, employees, vendors, stockholders and to the society.
- **Process focus:** In all activities there should be process focus which may require restructuring of vertical processes to ‘cross-functional’ horizontal processes where clear view of customer needs can be established in each of these processes. This is the new approach to change the work culture to teamwork and make everyone in the process responsible for the quality by training and empowerment.
- **Creating a culture of working through people’s involvement:** To give effect to this principle, TQM system works on an ‘internal customer’ system, where each person and process can be linked as customer to each other in the chain of activities for production and delivery of goods and services. This system is proving to be at the core of TQM for involving all people into the process of customer satisfaction, and developing a customer orientation culture in the organization.
- **Continuous improvement of all processes and activities, leading to total customer satisfaction and competitive advantage:** This is a key

measure for TQM; TQM believes that there is no end to improvement and it must be continuously pursued in an organization for performance excellence. Emphasis on continuous improvement in an organization makes people involved in work to think ‘outside the box’ and promote creativity and innovation in their work. Efforts for continuous improvement demand orientation to a new work culture, where continued thinking and working for improvements become a part of corporate life.

- **Training and development of people :** The TQM system believes that people are at the core of every process and activities of the organization. It is the people who drive the processes under the TQM system. Therefore, people should be trained and developed for understanding the process of TQM, the values and vision of the company, systems and tools of TQM and, above all, understanding the customer needs. This system is intended to empower and enable people of the organization for superior performance.
- **Empowerment and teamwork:** This is to provide people with the opportunity to learn, apply and practice their skills, creativity and knowledge. Team approach to work and the cross-functional process management are important aspects of TQM work culture. Under TQM system, cross-functional customer-focused horizontal processes are always run and owned by teams drawn for various connected functions, and the team is sufficiently empowered by the management for smooth and faster response to customer needs. Objective of this step is to eliminate bureaucracy and delay in decision-making, which otherwise can adversely affect the ability to serve the customers.

Much of these principles of TQM are based on various pronouncements of Deming, Juran and Crosby about how quality should be addressed and managed in industries. Principles are the guiding forces of a process. Therefore, application of these principles in their true spirit and purpose is important for success of total quality in an organization.

14.6 SIX SIGMA

Let’s discuss the concept in detail.

14.6.1 Concept of Six Sigma

Six Sigma is a quality metric that counts the number of defects per million opportunities (DPMO) at six levels. The higher the sigma-level, the better is the quality level with lower DPMO. General approach for this task is to work in terms of reduction of variations and defects by following a four-phase approach:

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- 1. Measure:** Select critical quality characteristics, determine the frequency of defects, define performance standards, validate measurement system, establish process capability and evaluate current performance.
- 2. Analyse:** Understand what, when, where and why of defects and causes by analysing sources of variation vis-à-vis target objectives. The process of analysis includes process mapping, identifying root causes and establishing cause-and-effect relationships.
- 3. Improve:** Brainstorm and generate ideas, narrow the list of potential solutions, select the best solution, validate the solution (use mathematical modeling, if necessary) and develop implementation strategy.
- 4. Control:** Maintain improvements by revalidating measurements, determining improved process capability and implementing statistical process control system to monitor performance.

Purpose of six steps in six sigma are:

- **Steps I & II:** These steps involve determining the products to be made, customer segment to be served, what is to be served and how to do that.
- **Step III:** This step involves in making the organization look at the needs for suppliers' support to meet the target quality and focus on developing suppliers' quality capability.
- **Step IV:** This is the step where all processes being carried out by the company should be mapped out, and needs and means for process improvement should be determined for fulfilling the mission.
- **Step V:** This step involves critical evaluation of the process to be upgraded, and all non-value added steps, activities and sources of errors should be eliminated.
- **Step VI:** This is the step for establishing measurement criteria, analysing data and driving the process with a spirit of continuous improvement.

Improvement drive in the Six Sigma practice calls for usage of all tools of total quality improvement — including re-engineering — with focus on the means for reducing the process variability to bare minimum and establishing consistency in the new process. The Six Sigma technique identifies sources of faults, tracks them back to the origin, eliminates them, takes steps to make the process or system more capable by reducing the dispersion and variation and then provides measures for maintaining consistency. A CTQ process with a capability level established at a given time by the Six Sigma technique may not be quite suitable for customers of different periods; hence processes need continuous evaluation, re-working and improvement. The improvement may be brought about in stages

from a lower sigma level to a higher sigma level, but it must be pursued for getting the full benefits of the ‘Six Sigma’ movement. *The term ‘sigma’ is a statistical term to denote statistical capability of a process. However, ‘Six Sigma’ is just not a statistical tool; it is a tool encumbering both manufacturing and non-manufacturing areas for ensuring superior quality, minimizing cost of poor quality and gaining customer satisfaction and loyalty in a competitive market.* A major part of the benefits of Six Sigma movement come from reduction in the cost of quality (also referred as cost of poor quality). Its impact on the ‘cost of quality’ vis-à-vis Six Sigma level of performance can be seen from Table 11.1.

Six Sigma methodology employs the following road map: Define – measure – analyse – design – verify (DMADV) cycle and define – measure – analyse – Improve – control (DMAIC) cycle. Both the cycles involve intensive data analysis using a range of statistical tools, which are also employed in total quality initiatives. However, DMADV cycle is used (i) when a product or process is to be developed in the company anew and (ii) when the existing product or process has been optimized but still does not meet the level of target for customer satisfaction or sigma level. The DMAIC cycle is used when a product or process is in existence but it is not adequately meeting customer satisfaction or the set performance standard. In the above cycles, *define* refers to setting project goals and customer deliverables, where customer means both internal and external customers; *measure* refers to customer needs and specification setting, and process measurement to determine current performance; *analyse* refers to process options to meet customer needs, root cause of the problem and identification of solution; *design* refers to designing of process for customer satisfaction; *verify* refers to analysis of results to determine if the performance is meeting customer needs and specification; *improve* refers to process improvement by eliminating defects and errors; *control* refers to identifying measures to control the process for future performance at the improved level.

14.7 BENCHMARKING

Let’s discuss the concept in detail.

14.7.1 Definition and Reasons for Benchmarking

Benchmarking is a powerful improvement technique and is being widely adopted by every type of industries and business. Benchmarking exercise could be carried out for every conceivable ‘issue’ in business, such as product quality, productivity, process efficiency, process capability, service quality, customer handling, customer satisfaction, profit, cost, delivery cycle, financial results, etc. **Robert C. Camp** first coined the term *benchmarking* in 1980, while studying the improvement

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programme at Xerox Corporation in USA. According to Camp, the meaning of benchmarking is finding and implementing best practices in the business for attaining best level of performance. This does not imply that benchmarking is copying the best practice of an industry; it is about indentifying a specific issue in a company where improvement can be beneficial and then understanding ‘who is the best in the industry in that respect, what made that company different from others, and how they have achieved the superior practice’.

Thus, benchmarking process may require partnering with that company of superior practice, understanding their logic of working and practice, appropriately adopting the practice in one’s own organization as per its own specific situation and potential in order to achieve improvement and superior level of performance. Necessity to partner with external companies or indentifying suitable source to partner with from within the organization’s other processes would depend on the subject matter and purpose of the benchmarking. The essence of benchmarking is the endeavour to analyse and understand the process, products or services of a world-class company (or a superior performer) in order to learn how it achieved those superior results, and then set up one’s own internal measures and steps to meet or surpass it. Juran described this as practice for managerial breakthrough. The purpose of benchmarking is to enable the organization to set in world-class practices in the company for much improved quality results, business results, customer confidence and competitive advantage.

The process of benchmarking makes an organization look outside to identify a business leader in the field for knowing and understanding the way to the leader has succeeded. Key to the success of benchmarking process is in understanding of *what, why, how and when* of the success story. It is a method of indentifying new ideas and new ways of looking at things for improvements. As for example, ‘customer complaint resolution time’ of Rank Xerox Corporation was one time benchmarked across the industry for better services to customers by gathering ideas from their approach to customer problems, data acquisition system, analysis of the problem and empowerment of employees to take decisions.

Good benchmarking exercises produce two types of information: (i) quantitative data that can be used to measure current performance and set future targets (this is prevalent in most financial exercises for setting targets for return on investments) and (ii) qualitative information on the approach to design of products and services and adoption of ‘key success factors’ that explain how the benchmarked company became the leader in that function or business (this is prevalent in manufacturing and electronic industries for launching new products and service features). Since benchmarking is an improvement exercise, it can perhaps be best started with a PDSA type approach. It has the following components:

- 1. Plan:** Plan what is to be benchmarked, identify critical success factors, form teams, document processes and set performance measures to be achieved.
- 2. Search:** Identify partners and establish partnership.
- 3. Observe:** Understand and document the partner's process, procedures and practice.
- 4. Analyse:** Identify gaps in performance and find out root causes.
- 5. Adopt:** Choose 'best practice, understand the methods and practice for improvement, adapt to company's own situation, but do not copy as they are being done in the partner's company.

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14.7.2 Benchmarking Process

Key factors for successful benchmarking are: (i) believing that there is a better way of doing things and there is a need for change and improvement from the present level, (ii) determining what should be improved and changed to make impact on company's performances, (iii) accepting the fact that another company's solution can be better and (iv) developing a vision of what it should be after the change. Translating these into actions broadly involves:

- Analysing the gap between own and other superior practices
- Understanding the prevalent 'best-practices' in industries to identify what must be changed or improved
- Identifying the most appropriate 'benchmarking partner' and studying their best practices methodology
- Implementing benchmarked practices at one's own unit to achieve set goals
- Reviewing of results and outcomes to determine 'where you are' after the change and what needs to be done further

Benchmarking process steps can be grouped under the cycle of plan–search–observe–analyse–adopt, as mentioned earlier.

In the step-by-step practice, this would mean following a systematic sequence of steps in following order:

- Step 1.** Identify the function to be benchmarked and form teams.
- Step 2.** Identify 'best-in-class' company in that function.
- Step 3.** Identify the key performance variables to measure and collect data.
- Step 4.** Establish benchmarking partnership with the chosen company and function.

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Step 5. Ensure that types of data being collected are amenable to accurate comparison with the benchmark partner's data.

Step 6. Analyse and compare the data for understanding the measures taken by the partner.

In addition to the collection of quantitative data, identify if management approach differs between the companies and identify the critical factor that led to the success of the partner.

Step 7. Prepare enablers from the study of partner's technique and management actions.

Step 8. Set new goals or levels of performance in the chosen function (benchmarked level).

Step 9. Establish functional goals for the benchmarking team and allow analysis of how the goals can be accomplished in the situations of the company.

Step 10. Allow team to make presentation and recommendations about how the company must act and improve to reach to the new goals. Make management review in terms of resources and facility requirements and finalize target and actions.

Step 11. Communicate and share the findings and goals with the people of the organization to build understanding, commitment and motivation to work for the goals.

Step 12. Develop action plan for implementation covering all related areas.

Step 13. Implement actions and monitor progress and share the improvement outcomes with the partner and people of the organization.

Step 14. Review and recalibrate the benchmarked goals and levels.

Step 15. Re-evaluate periodically the benchmarks to ensure that they are valid for current data and business situation and aimed at best targets.

Significant benefit of benchmarking is in creating an attitudinal change for managing the business through diverse thinking, creative approach, and breaking the barrier of common mind set. When benchmarking practice is used correctly, it can considerably influence the operating practices of a company. Care is necessary to correctly understand the process and objectives of benchmarking. It is not a quick fix for performance gap in a competitive environment. Benchmarking cannot work unless there is an environment of openness in the organization; creativity, commitment and involvement of people; and the recognition that there is always a scope to learn and improve.

14.8 BALANCED SCORECARD

The balanced scorecard is being used as a strategic management tool by many organizations. This technique also offers potential to those who wish to achieve strategic HRD. The balanced scorecard technique stresses that organizations should develop objectives and performance measures in a range of areas which reflect the full scope of business and not just the financial aspect of business alone. The organization should look at issues from the perspectives of the customer, the internal business perspectives, and of innovation and learning. In each of these areas, objectives and measures must be agreed upon taking into consideration stakeholders expectations and requirements.

Design of a balanced scorecard

Design of a balanced scorecard is primarily based on the identification of a small number of financial and non-financial measures and the development of such features that attach targets to them. The balance scorecard should be so designed that it is possible to determine whether current performance ‘meets expectations’. The idea behind this is that when managers are able to identify the areas where performance deviates from expectations, they can be encouraged to focus their attention on these areas. This would ultimately lead to improvement in performance within the part of the organization they lead.

The original thinking behind a balanced scorecard was that it should be focused on information relating to the implementation of a strategy. However, with the passage of time there has been a blurring of the boundaries between conventional strategic planning and control activities and those required to design a balanced scorecard. In the late 1990s, Kaplan and Norton’s identified the following four steps as being part of the Balanced Scorecard design process:

Step 1: Translating the vision into operational goals

Step 2: Communicating the vision and link it to individual performance

Step 3: Business planning; index setting

Step 4: Feedback and learning, and adjusting the strategy accordingly

Use of a balanced scorecard in incentive- based pay

A common use of balanced scorecard is to support the payments of incentives to individuals. However, the use of balanced scorecard for appraisal / incentive is criticized on the following grounds:

- It results in the ‘forced distribution’ of people into performing groups.
- It leads to a ‘one size fits all’ strategy to performance management.

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- It encourages organizations to evaluate performance using a bell curve method. This, in turn, can mean that a set percentage of staff will be categorized as ‘under performing’.
- It encourages ‘peer ranking’ resulting in assessment of performance relative to the performance of other employees, rather than fixed standards.

Check Your Progress

1. State the rationale behind business process reengineering.
2. What is the key element for total quality?
3. List the principles governing the TQM system.
4. Define six sigma.
5. Who coined the term benchmarking?

14.9 ANSWERS TO ‘CHECK YOUR PROGRESS’

1. The rationale behind business process reengineering is that the manner in which business is conducted changes with time and an information system that is designed over such out dated business processes would not provide any worthwhile value to managers.
2. The key element for total quality is the process of continuous improvement so as to work on the changing needs of customers and assuring customer satisfaction all the time.
3. The principles governing the TQM system are as follows:
 - Customer-oriented approach
 - Strategic planning and leadership
 - Process focus
 - Creating a culture of working through people’s involvement
 - Continuous improvement of all processes and activities, leading to total customer satisfaction and competitive advantage
 - Training and development of people
 - Empowerment and teamwork
4. Six Sigma is a statistics-based approach to bring down the dispersion of the process to as close as possible, which is expressed in terms of ‘sigma level’
5. Robert C. Camp first coined the term benchmarking in 1980.

14.10 SUMMARY

- Partner companies offer strategic alliances with respect to certain resources, such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. These alliances are primarily based on cooperation aiming at a synthesis that profits the participating members more than individual efforts.
- Core competence primarily implies specific advantages offered by an organization in comparison to its competition, in terms of value additions unique to the industry. It involves organizational learning, coordination of diversified production skills and integration of varied technological streams.
- TQM is defined as *a people-focussed management system that aims to integrate all activities, functions and processes within an organization for achieving continuous improvement in quality, cost, functions (value) and delivery of goods and services for continual customer satisfaction.*
- TQM occurs when an entire organizational culture becomes focussed on quality and customer satisfaction through an integrated system of processes, tools, techniques and training.
- Six-sigma is a statistics-based approach to bring down the dispersion of the process to as close as possible, which is expressed in terms of 'sigma level'. The higher the sigma-level, the better is the quality level with lower DPMO.
- The process of benchmarking makes an organization look outside to identify a business leader in the field for knowing and understanding the way to the leader has succeeded.
- The balanced scorecard is being used as a strategic management tool by many organizations. This technique also offers potential to those who wish to achieve strategic HRD.

NOTES

14.11 KEY WORDS

- **Business Process Reengineering (BPR):** The scientific exercise of overhauling the process of doing business.
- **Total Quality Management (TQM):** A management strategy to transform and change the organizational work culture for improvement in overall performances of the business.

NOTES

- **Six Sigma:** A statistics-based approach to bring down the dispersion of the process to as close as possible, which is expressed in terms of ‘sigma level’.
- **Benchmarking:** A powerful improvement technique that focusses on finding and implementing the best practices in the business for attaining best level of performance.

14.12 QUESTIONS AND EXERCISES

Short Answer Questions

1. State the principles around which BPR activities are performed.
2. Explain the road map of six sigma methodology.
3. List the components of the PDSA type approach used in benchmarking.
4. What is the significant benefit of benchmarking?

Long Answer Questions

1. Explain the BPR model.
2. Discuss the significance of TQM in an organization.
3. Write a note on the context of six sigma.
4. Analyse the benchmarking process.
5. Discuss the purpose of a balanced scorecard.

14.13 FURTHER READINGS

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