



# **ALAGAPPA UNIVERSITY**

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

**KARAIKUDI – 630 003**



## **Directorate of Distance Education**

**B.B.A.**

**II - Semester**

**104 23**

# **PRINCIPLES OF MANAGEMENT**

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## Principles of Management

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## INTRODUCTION

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A number of developments in managerial thinking and processes have taken place in the last few decades. All parts of the world have become closer to each other; the communication networks and the Internet resources have made the whole world into a 'global village'. Organizations have become multinational, transcending national and geographical boundaries. The workforce has become highly diversified. More women are joining the management ranks and ethical conduct of organizations is being emphasized and monitored. There is movement towards total quality in products and services. Customer satisfaction has become a concern of the highest priority. Today's business environment is one of global competition, scarce resources, rapid technological changes, increasing demand for social responsibility and downsized organizational structures. The economic and industrial environments have become more volatile and management is required to do strategic planning for the near and distant future of their respective organizations in order to address the fast and dynamic changes as well as the continuously evolving competitive environment.

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 management 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 carefully and painstakingly planned to prepare the students of distance learning programmes to become successful managers and practitioners. The book covers the tools, techniques and strategies used by effective managers in today's dynamic and complex environment. It is well grounded and authoritative in terms of latest developments in management theory and practice. The material has been presented in the Content Exposition approach. In this approach, we have begun with an Introduction of the topic of the unit; then, we have outlined the unit Objectives; which is followed by the details of the contents in a simple and easy-to-learn format. At the end of each unit, we have highlighted a Summary and 'Key Terms' for quick recollection. Finally, we have carefully posed Questions and Exercises along with 'Check Your Progress' questions to increase your comprehension of the subject.

## NOTES



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## **BLOCK - I**

### **BASIC THEORY AND CONCEPT OF MANAGEMENT**

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## **UNIT 1 INTRODUCTION TO MANAGEMENT**

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### **1.0 INTRODUCTION**

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Although proper definitions of management have only recently come into being, the act of 'management' has existed since time immemorial. 'Management' as a term refers to a range of activities undertaken in order to successfully complete a task. Simply put, management is all about getting things done. It refers to the process used to achieve a certain target or fulfil a specific goal. No wonder it is said to be an art as well as a science. Organizations across the world, irrespective of whether they are political, cultural, social or business, thrive on their management strategies or skills. In this unit, you will learn about the nature, scope and need of management.

This unit also discusses the evolution of management thought. It is important to recognize that the three schools of management, namely, classical, behavioural and quantitative are not necessarily mutually exclusive. Each school or approach complements the other in some way in spite of the differences in underlying assumptions and are applied today in one form or another.

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## **1.1 OBJECTIVES**

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

- Examine the various definitions of management
- Understand the nature and significance of management
- Explain the role, skills and responsibilities of a manager
- Discuss the different schools of management thought

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## **1.2 CONCEPT, NATURE, PROCESS AND SIGNIFICANCE OF MANAGEMENT**

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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. For example, let us look at the managerial role of a simple housewife and how she uses the managerial ingredients in managing the home. First of all, she appraises her household and its needs. She forecasts the needs of the household for period of a week or a month or longer. She takes stock of her resources and any constraints on these resources. She plans and organizes her resources so as to obtain the maximum benefits out of these resources. She monitors and controls the household budget and expenses and other activities. In a large household, she divides the work among other members and coordinates their activities. She encourages and motivates them to do their best in completing their activities. She is always in search for improvements in goals, resources and in means to attain these goals. These ingredients, generally, are the basic functions of management.

The concept of management is as old as the human race itself. The concept or “family” itself required that life be organized and resources of food be apportioned in: a manner so as to maximize the utility of such resources. Taking proper steps to safeguard the family from attacks by wild animals, planning on where to go fishing and hunting and whom to go with, organizing these groups into “chiefs” and hunting and fishing bands where chiefs gave directions and so on, are all subtle ingredients of management and organization. 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 things together 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.

Even the recorded history shows the application of some current management techniques as far back as 5000 B.C. when the ancient Sumerians used written records in assisting governmental operations. The Egyptian pyramids, built as early as 3000 B.C. required the organized efforts of over 100,000 workers. It would be natural to assume that all functions of modern management, namely, planning, organizing, directing and controlling played a significant role in the construction of these monuments. Similarly, the early civilization of India bears witness to organized living.

Management, as a system, is not only an essential element of an organized society but also an integral part of life when we talk about managing our lives. Managing “life” is not much different from managing an organization and this “art” of management has been with us from time immemorial. Just as a well-managed life is much better organized, goal oriented and successful, “good” management of an organization makes the difference between the success and the failure of the organization. Perhaps, the importance of management was highlighted by the late President of United States, John F. Kennedy when he said that, “the role of management in our society is critical in human progress. It serves to identify a great need of our time: to improve standards of living for all people through effective utilization of human and material sources.” Similarly, Peter F. Drucker, a noted management authority has emphasized the importance of management to social living. He proclaimed nearly 25 years ago that, “effective management was becoming the main resource of developed nations and that it was the most needed resource for developing nations.”

A manager’s job is highly crucial to the success of any organization. The more complex the organization, the more crucial is the manager’s role in it. A good manager makes things happen. The importance of management in any organization was emphasized by Professor Leonard R. Sayles in his address to a group of management development specialists, as follows.

“We must find ways of convincing society as a whole, and those who train managers in particular, that the real leadership problems of our institutions- the getting things done, the implementation, the evolving of a consensus, the making of the right decisions at the right time with the right people- is where the action is. Although we as a society haven’t learned to give much credit to managers, I hope we can move toward recognizing that managerial and leadership jobs are among the most critical tasks of our society. As such, they deserve the professional status that we give to more traditional fields of knowledge.”

### **Management Defined**

Many management thinkers have defined management in their own ways. For example, Van Fleet and Peterson define management, “as a set of activities directed at the efficient and effective utilization of resources in the pursuit of one or more goal.”

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Meggison, Mosley and Pietri define management as, “working with human, financial and physical resources to achieve organizational objectives by performing the planning, organizing, leading and controlling functions.”

Kreitner considers management as a problem solving process. He defines management as follows:

“Management is a problem solving process of effectively achieving organizational objectives through the efficient use of scarce resources in a changing environment.”

Some of the integral elements of this definition can be separated and briefly explained as follows:

- a) **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 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.
- b) **Organizational objectives.** All organizations have a mission which 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 ten percent in two 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.
- c) **Efficiency.** 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 so that these resources are fully utilized without waste. Similarly, effectiveness means “doing the right things

in the right way at the right times”. 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.

- d) **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.
- e) **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.

### Significance

Management is important because:

- It helps in achieving organizational objectives
- It increases efficiency
- It creates a dynamic organization
- It helps in achieving personal goals
- It also helps in the development of society

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## 1.3 MANAGEMENT LEVELS, SKILLS, FUNCTIONS AND ROLES

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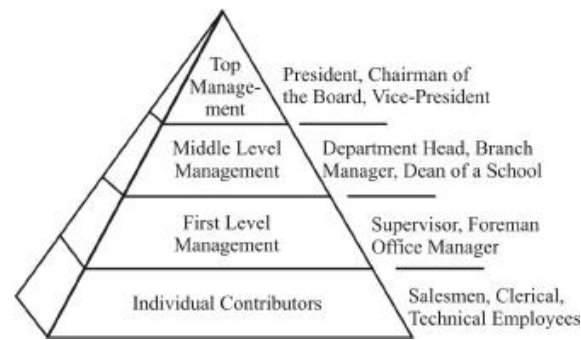
Let us begin by discussing management levels.

### Management Levels

As the organizations grow larger and more complex, they usually develop several levels of managerial positions, forming a hierarchy of superior and subordinate reporting relationships. Traditionally, there are three managerial levels which are usually depicted in the form of a hierarchical pyramid. The total number of personnel found at each level decreases as the management level increases up the pyramid. The largest number of people in the organization are at the lower organizational level, at the bottom of the pyramid and these people are operating in a non-managerial capacity. This group consists of individual contributors who are simply the employees who work under the guidance of their supervisors. These levels, in the form of a pyramid are shown as follows:

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**Fig 1.1** Management Levels

The top level managers are ultimately responsible for the entire organization. The top level management, also known as “central management” includes top executives such as chief executive officer (CEO), chairman of the board of directors, president, executive vice-presidents and various vice-presidents. These managers are primarily involved in broad organizational matters such as policy formulation, long range strategic planning, goal setting and development of organizational strategies. In general, top management effectively deals with all elements and forces that affect the survival, stability and growth of the organization.

### **Middle Level Managers**

The middle management level generally consists of divisional and departmental heads such as a plant manager, production manager, marketing manager, personnel director and so on. Their responsibility is to interpret policies and directions set by the top level management into specific plans and guidelines for action. Their responsibility further is to coordinate the working of their departments so that the set objectives can be achieved. They are concerned with short-term goals and specific results. They spend more time on operational planning, information processing and day-to-day monitoring of their divisional activities. They serve as a link between the strategic activities of the top managers and operational activities of first level managers who are the subordinates in terms of information dissemination in both directions.

Organizations, specially the very large ones often have several layers of middle managers. During expansion years, at one time, General Motors (GM) had 14 or 15 management levels. However the tendency now is to have fewer layers and give the managers greater autonomy and responsibility, part of which is delegated to lower level managers.

### **First Level Supervisory Managers**

This level of management consists of supervisors, superintendents, unit heads, foremen, chief clerks and so on. The primary concern of the first level managers is with the mechanics of the job and they are responsible for coordinating the work of their employees. They must possess technical skills so that they can assist their

subordinate workers where necessary. They plan day-to-day operations, assign personnel to specific jobs, oversee their activities, evaluate their performances and become a link between the workers and the middle level management. Because they represent both the middle level management as well as the workers on the other side, the first line supervisors can easily find themselves in the middle of conflicting demands. According to Kerr, Hill and Broedling, their greatest emphasis is evolving around dealing with internal human relations rather than operational activities because of the trend towards more educated work force, team works and group cohesions as well as growing use of computers in tracking and monitoring many activities that were previously regulated by first-line manager.

## **NOTES**

### **General Versus Functional Managers**

Apart from the vertical levels of managerial hierarchy, there are two types of managers with different responsibilities. These are “Functional Managers” and “General Managers”. Functional managers take responsibility for one type of function or specialized activity and supervise the work of employees who are engaged in such specialized activities as marketing, finance, accounting, quality control, production and so on.

General managers, on the other hand, are responsible for the activities of several different groups that perform a variety of functions and have authority over both the specialized as well as generalized activities. For example, the general manager of a plant in a manufacturing company is responsible for monitoring all aspects of the plant such as production, engineering, quality control, labour relations, purchasing, inventories and so on. Branch managers are considered as general managers if employees from different disciplines within the branch report to them.

General managers in non-profit organizations such as hospitals, universities or government agencies are designated as “administrators”, rather than managers. For example, the head of a hospital might be known as a chief administrator. Similarly, the president of a college or the dean of a school would be designated as an administrator.

### **Managerial Skills**

A skill is an acquired and learned ability to translate knowledge into performance. It is the competency that allows for performance to be superior in the field in which the worker has the required skill. All managers need to possess technical, interpersonal, conceptual, diagnostic, communicational and political skills. While technical and diagnostic skills refer to the knowledge and ability of understanding the processes involved and scientifically analyzing problems and opportunities, all other skills deal with people in one form or the other. These “human” skills are the most important assets of any successful manager.

It is the manager’s job to achieve the organizational objectives ,through the proper utilization of its human and material resources. However, since the material

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resources of equipment, capital, facilities, information and so on can only be used by humans, the human resources are the most valuable assets of any organization. Accordingly, a manager must be highly skilled in the art of optimally utilizing the human resources. This art is universal in nature. In every walk of life, human skills are necessary for success. These various skills are briefly explained as follows:

**Technical Skills:** These skills basically involve the use of knowledge, methods and techniques in performing a job effectively. This is a specialized knowledge and expertise which is utilized in dealing with day-to-day problems and activities. For example, engineers, accountants, computer programmers and systems analysts, all have technical skills in their areas and these skills are acquired through education and training. This skill is highly necessary at the lower level of management and as one moves to higher levels of management, the relative importance of technical skills usually diminishes. This is so because unlike first-level supervisors, managers at higher levels have less direct contact with technical operating problems and activities.

**Human skills:** Human skill is the ability to work with other people in a cooperative manner. It involves understanding, patience, trust and genuine involvement in interpersonal relationships. These are interpersonal skills and are necessary at all levels of management. People with good interactive human skills build trust and cooperation as they motivate and lead and thus become successful managers. This skill is gaining more importance as the work place is becoming more and more ethnically diversified and the manager has to be aware and become adaptive to cultural differences. Furthermore, since the businesses are more and more becoming multinational and global, managers are required to learn new ways of dealing with people in different countries with different cultures and value systems.

**Conceptual skills:** Conceptual skill is the ability to view the organization as a whole and as a total entity as well as a system comprised of various parts and subsystems integrated into a single unit. This skill is specially crucial for top level executives who must keep the whole system under focus. They must understand the complexities of the overall organization, including how each unit of the organization contributes towards the overall success of the entire organization. This skill generally depends upon an organized thinking process which deals with understanding of various functions of an organization, their interdependence and the relationship of the organization with the outside environment in terms of threats and opportunities.

**Diagnostic skills:** This skill refers to a manager's analytical ability where a manager can logically and objectively investigate and analyze a problem or an opportunity and use scientific approaches to arrive at a feasible and optimal solution. It is important however that a manager gets to the root cause of the problem so that the solution is the real and a permanent one rather than simply a short-term or a cosmetic one. This skill overlaps with other skills because a manager may need to use technical, human, conceptual or political skills to solve the problem that has been diagnosed.



**Communicational skills:** Communicational skills are an important component of interpersonal skills and are basic to all other skills and these are important and necessary at all levels of management. A manager's best ideas will have little impact if they cannot be communicated effectively. Good communication is the foundation of sound management. Proper communication eliminates delays, misunderstanding, confusion, distortions and conflicts and improves coordination and control. All the four communicational skills, namely, writing, reading, listening and non-verbal gestures are important ingredients of successful leadership.

**Political skills:** Political skill can be described as the ability to get your own way without seeming to be selfish or self-oriented. It is the ability to get your share of power and authority and use it without fear of losing it. It is the most complex of skills in the sense that it is required to establish the right connections and impressing the right people and then skillfully using these connections to your own advantage. Political skill is most important at the middle management level because middle managers always aspire to reach the top levels of management and right connections help in such aspirations.

### **Managerial Roles**

Another approach to study management is to examine the roles that managers are expected to perform. 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 interpersonal relationships. 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 interpersonal roles and these two categories lead to the third category of decisional roles. These roles are explained in more detail as follows:

#### **Interpersonal Roles**

Managers spend a considerable amount of time in interacting with other people both within their own organizations as well as outside. These people include peers, subordinates, superiors, suppliers, customers, government officials and community leaders. All these interactions require an understanding of interpersonal relations. Studies show that interacting with people takes up nearly 80% of a manager's time. These interactions involve the following three major interpersonal roles.

**Figurehead.** Managers act as symbolic figureheads performing social or legal obligations. These duties include greeting visitors, signing legal documents, taking important customers to lunch, attending a subordinate's wedding or speaking at functions in schools and churches. All these, primarily, are duties of a ceremonial nature but are important for the smooth functioning of the organization.

**Leader.** The influence of the manager is most clearly seen in his role as a leader of the unit or organization. Since he is responsible for the activities of his subordinates,

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he must lead and coordinate their activities in meeting task-related goals and he must motivate them to perform better. He must be an exemplary leader so that his subordinates follow his directions and guidelines with respect and dedication.

**Liaison.** In addition to their constant contact with their own subordinates, peers and superiors, the managers must maintain a network of outside contacts in order to assess the external environment of competition, social changes or changes in governmental rules, regulations and laws. In this role, the managers build up their own external information system. In addition, they develop networks of mutual obligations with other managers in the organization. They also form alliances to win support for their proposals or decisions. The liaison with external sources of information can be developed by attending meetings and professional conferences, by personal phone calls, trade journals and by informal personal contacts within outside agencies.

### Informational Roles

By virtue of his interpersonal contacts, a manager emerges as a source of information about a variety of issues concerning the organization. In this capacity of information processing, a manager executes the following three roles.

**Monitor.** The managers are constantly monitoring and scanning their environment, both internal and external, collecting and studying information regarding their organization and the outside environment affecting their organization. This can be done by reading reports and periodicals, by asking their liaison contacts and through gossip, hearsay and speculation.

**Disseminator of information.** The managers must transmit their information regarding changes in policies or other matters to their subordinates, their peers and to other members of the organization. This can be done through memorandums, phone calls, individual meetings and group meetings.

**Spokesperson.** A manager has to be a spokesman for his unit and he represents his unit in either sending relevant information to people outside his unit or making some demands on behalf of his unit. This may be in the form of the president of the company making a speech to a lobby on behalf of an organizational cause or an engineer suggesting a product modification to a supplier.

### Decisional Roles

On the basis of the environmental information received, a manager must make decisions and solve organizational problems. In that respect, a manager plays four important roles.

Entrepreneur as entrepreneurs, managers are continuously involved in improving their units and facing the dynamic technological challenges. They are constantly on the lookout for new ideas for product improvement or products addition. They initiate feasibility studies, arrange for capital for new products if necessary, and ask for suggestions from the employees for ways to improve the

organization. This can be achieved through suggestion boxes, holding strategy meetings with project managers and R & D personnel.

**Conflict handler.** The managers are constantly involved as arbitrators in solving differences among the subordinates or the employee's conflicts with the central management. These conflicts may arise due to demands for higher pay or other benefits or these conflicts may involve outside forces such as vendors increasing their prices, a major customer going bankrupt or unwanted visits by governmental inspectors. Managers must anticipate such problems and take preventive action if possible or take corrective action once the problems have arisen. These problems may also involve labour disputes, customer complaints, employee grievances, machine breakdowns, cash flow shortages and interpersonal conflicts.

**Resource allocator.** The third decisional role of a manager is that of a resource allocator. The managers establish priorities among various projects or programs and make budgetary allocations to the different activities of the organization based upon these priorities. They assign personnel to jobs, they allocate their own time to different activities and they allocate funds for new equipment, advertising and pay raises.

**Negotiator.** The managers represent their units or organizations in negotiating deals and agreements within and outside of the organization. They negotiate contracts with the unions. Sales managers may negotiate prices with prime customers. Purchasing managers may negotiate prices with vendors.

All these ten roles are important in a manager's job and are interrelated even though some roles may be more influential than others, depending upon the managerial position. For example, sales managers may give more importance to interpersonal roles while the production managers may give more importance to decisional roles. The ability to recognize the appropriate role to play in each situation and the flexibility to change roles readily when necessary, are characteristics of effective managers. Most often, however, the managerial effectiveness is determined by how well the decisional roles are performed.

### **Management Responsibilities**

The management is responsible and accountable to many groups. Sometimes, the interests of these groups conflict with each other. Hence management must conduct its affairs in such a manner as to be fair and equitable to all parties who have a vested interest and claim on management. The management is answerable to the following groups.

**Stockholders.** The stockholders are the owners of the company who have invested capital in the organization. Their primary purpose in investing funds is to make a reasonable profit on their investment. Accordingly, management must direct its resources at its command in such a manner as to yield a satisfactory rate of return for its investors in the long run. The stockholders are not so much interested, in quick profits as they are in the stability, growth and the image of the company. The

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company must create an image of quality and service. In addition, it is the management's duty to inform the shareholders about the company's financial position from time to time and all other relevant matters regarding objectives, policies and procedures so that the stockholders can give some necessary input from time to time. The stable growth of the company will help the stockholders in two ways. First, they will share a part of the total profits in the form of dividends and secondly, the value of their share will appreciate. Accordingly, management must base their decisions on long range planning and steady growth of the organization.

**Employees.** The responsibilities of management towards employees, who invest their time, talent and efforts into achieving organizational goals and objectives, are manifold. It must be clearly understood that the employment is meant to be mutually beneficial for the employee as well as for the employer. Accordingly, the emphasis should not only be on what the employee can do for the company but equally on what the company can do for the employee. The employee contribution must be fully recognized and appreciated. The employees must be assigned the right jobs as per their knowledge, expertise, attitudes and interests. Additionally, the employees must be made aware of company policies, procedures and objectives.

The employees spend the major part of their days in work environment. Accordingly, working conditions must be conducive to work. The working conditions refer to physical facilities in terms of space, cleanliness, light, heat, air-conditioning, safety, sanitation facilities and so on. These must meet acceptable standards. Whenever, a job requires some extra degree of risk or difficulty, then additional benefits and incentives must be offered. Some of the other provisions that can be made available to employees are: social and athletic activities, provision for suggestions that would be seriously considered by management, easy access to superiors, flexibility in working hours if possible, provision for psychological counselling and so on. These provisions will assist in developing a positive attitude towards work and the organization which would greatly improve productivity.

The employees must be given reasonable assurances that their jobs are secure. Their sense of job security greatly improves the sense of dedication to the company. A life time employment brings about a shared responsibility which helps in building loyalty to the organization. The system of "tenure" in academic institutions after five or six years of continuous service is designed to give the teaching faculty a sense of economic security which should bring out dedication, sincerity and a sense of belonging to the academic institution. In addition to job security, the remuneration and fringe benefits must be adequate and encouraging. Fringe benefits include life insurance, medical insurance, paid sick leave, maternity leave, stock options, profit sharing plans, pension plans, provident funds and other retirement benefits, paid vacation and so on.

All the benefits to the employee would be meaningless if the employee is not happy at his job. Accordingly, the conceptual environment in the organization should be such as to enhance the employee's confidence and faith in the company.

The employees should be encouraged to participate in the company affairs as much as possible, especially in the formulation of procedures and policies affecting them. Other management policies that would enhance the employee's sense of happiness and self-fulfillment include provisions for challenging opportunities, increased responsibility, participation in decision making process and so on.

**Consumers.** The consumers expect a quality product at a reasonable price with guaranteed satisfaction. It is the responsibility of the management to see that the interests of the consumers are adequately met: The quality of the product can be guaranteed by offering facilities for returning the defective product either for a refund of the purchase price or exchange for a new unit. The product should be simple to operate and be made easily available through proper distribution channels. Also, by providing free repair or corrective service for the product for a specified period of time, the customer's confidence in the quality of the product can be strengthened. The customer satisfaction should be the first rule of sales. "The customer is always right" has proved to be a good policy for initiating sales and keeping the customer.

**Government.** The management must operate within the legal system, adhering to all laws which may be local, state or federal. They must pay proper taxes on time. They must respect laws pertaining to social environment such as in the areas of air pollution, water pollution, dumping of chemical waste and so all. There are laws which prohibit discriminatory hiring on the basis of sex, age, religion, provincialism or ethnic origin. The management is further responsible to obey such legal directives as truth in advertising, truth in lending, meaning that the banks must disclose all costs accurately when making loans. There are some anti-trust laws which must be respected. These laws prohibit a few major companies that may dominate the market for a particular product from conspiring to fix prices or, create artificial shortages by hoarding and holding back supply of the product deliberately.

**Community.** Some of the social community interests that the management is expected to serve and promote include:

- Providing jobs within the community
- Hiring the handicapped
- Assisting in religious and educational activities.
- Organizing sports tournaments and other cultural functions for the community
- Raising funds for public activities such as opening of medical clinics, hospitals or other charitable activities
- Taking active interest in all community affairs.

### **Management Functions**

The management process consists of four basic functions, namely, planning, organizing, directing and controlling. These functions are the manager's tools to achieve the organizational goals and objectives. These functions are interrelated

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and interdependent so that a significant change in one function affects the functioning of others.

### **Planning**

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Planning is considered to be the central function of management and determines the organization's direction. It is a rational and systematic way of making decisions today that will affect the future of the company. It involves the process of ascertaining organizational goals and objectives and deciding on activities to attain these objectives. It is also a process of preparing for change and coping with uncertainty by formulating future courses of action. Planning is particularly important because of scarce resources and uncertain environments with a fierce competition for these resources.

Planning is a kind of organized foresight and corrective hindsight. It involves forecasting the future as well as attempting to control the events. It involves the ability to foresee the effects of current actions in the long run in the future. Peter Drucker has defined planning as follows:

“Planning is 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 expectations through organized and systematic feedback.”

An effective planning programme incorporates the effects of both external as well as internal factors. The external factors are shortages of resources, both capital and material, general economic trend in terms of interest rates and inflation, dynamic technological advancements, increased governmental regulations regarding community interests, unstable international political environments 'and so on. The internal factors that affect planning include limited growth opportunities due to saturation which may require diversification, changing patterns of work force, more complex organizational structures, decentralization and so on.

### **Organizing**

Organizing requires a formal structure of authority and the direction and flow or such authority through which work sub-divisions are defined, arranged and coordinated so that each part relates to each other part in a united and coherent manner so as to attain the prescribed objectives. Thus, the function of organizing involves the determination of activities that need to be done in order to achieve the company goals, assigning these activities to the proper personnel and delegating the necessary authority to carry out these activities in a coordinated and cohesive manner. It follows, therefore, that organizing function is concerned with:

- Identifying the tasks that must be performed and grouping them wherever necessary.

- Assigning these tasks to the personnel while at the same time defining their authority and responsibility.
- Delegating such authority to these employees.
- Establishing a relationship between authority and responsibility.
- Coordinating these activities.

### **Directing**

The directing function is concerned with leadership, communication, motivation and supervision so that the employees perform their activities in the most efficient manner possible. The leadership element involves issuing of instructions and guiding the subordinates about procedures and methods. The communication must be open both ways so that the information can be passed on to the subordinates and the feedback received back from them. Motivation factor is very important, since highly motivated people show excellent performance with less direction from superiors. Supervising subordinates would give continuous progress reports as well as assure the superiors that the directions are being properly carried out.

The leadership style that works best varies, depending upon the characteristics of the leader, the followers and the relevant situation. As the president of a top “Fortune 500” company said, “A leader must lead, not drive. People are unpredictable, different from one another, often irascible, frequently petty, sometimes vain, but always magnificent if they are properly motivated”.

### **Controlling**

The function of controlling consists of those activities that are undertaken to ensure that the events do not deviate from the pre-arranged plans. It is the process of devising ways and means of assuring that planned performance is actually achieved.

In essence, control involves sequentially:

- Setting up standards of performance
- Determining methods for measuring such performance
- Measuring the actual performance using these methods
- Comparing these measurements with the pre-established standards, and
- Taking corrective action, when necessary, to correct any deviations between the measured performance and expected performance.

#### **Check Your Progress**

1. How does Megginson, Mosley and Pietri define management?
2. What is diagnostic skill?
3. What are the four basic functions of management?

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### 1.4 MANAGEMENT VS. ADMINISTRATION

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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.

#### **The definition**

Administration is defined 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 policymaking along with their execution. Therefore, management includes both administrative management and operative management.

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### 1.5 COORDINATION AS ESSENCE OF MANAGEMENT

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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 emphasize the need for coordination are:

- **Increasing specialization:** Coordination becomes essential when the principle of specialization 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. 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. This kind of attitude may fulfill his personal and professional ego but will isolate him from others. Organizational goals cannot be accomplished with this approach. Coordination is essential to ease an awkward situation.
- **Personal conflicts between employees:** Personal rivalries, jealousies and politics among the employees in the work situation are bound to create problems for 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 harmonizing group efforts within the organization.
- **Subordination of individual interests to those of organizational interests:** Individual interests are important for developing loyalty, integrity, hard work, initiation and motivation. Organizational interests, however, are much more important than individual interests. For achieving organizational interests, sometimes subordination of individual needs becomes necessary as organizational goals come prior to individual goals. The purpose of coordination is to attain the organizational interest.

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The importance of coordination need not be over emphasized. 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.

### Check Your Progress

4. Define administration?
5. When does coordination become essential in an organization?

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## 1.6 DEVELOPMENT OF MANAGEMENT THOUGHT

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Let us now examine the different schools of management thought.

### 1.6.1 Classical

The classical school of management is also known as the operational approach to management. This school regards management as a process of getting things done with people operating in organized groups. Henri Fayol is known as the father of this school. According to this school, management can best be studied in terms of the process that it involves. Those subscribing to this school are of the view that management principles are of universal application. This approach is also designated as the *traditional approach* or the *universal approach*. The contributors and thinkers who belong to this school are William Newman, Summers, McFarland, Henry, J.D. Mooney, A.C. Railey, Lyndall Urwick and Harold Koontz.

### 1.6.2 Behavioural or Neo-classical

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.

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,

Since human behaviour is highly complex, a number of factors may affect the worker's productivity and indeed the feelings of belonging, recognition and participation are important for optimum worker productivity.

### **1.6.3 Systems**

Systems approach to management views organizations as systems functioning in relation to their environment. A system is defined as "a group of interrelated parts that function as a whole to achieve a common purpose." All organizational systems operation the basis of four elements. These are: inputs, transformation process, output and feedback.

#### **Open and Closed Systems**

Systems may be categorized as open or closed. A closed system is a set of interacting elements without any interaction with the outside environment. It has no input from outside in any form. As an example, a battery operated digital watch can be considered as a relatively closed system because once the battery is inserted in it, it does not require any element from outside to operate.

An open system, on the other hand, is the one that is dependent on the outside environment for survival. As an example, a human body as a system, composed of many sub-systems, is an open system since it must depend upon outside input and energy for survival.

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All organizations are open systems as they always depend upon the outside environment for feedback and resources and for disposal of the finished product. In the process of transformation of inputs into outputs, -the organizations must take into consideration the dynamics of outside environment and must continuously interact with outside variables. For example, when producing and selling a product, the management must analyse, in addition to internal operations, the external factors of resource availability, current technological trends, market trends and social changes.

### **Main characteristics of a system**

1. Every system is comprised of many sub-systems which are continuously interacting with each other.
2. Every system is a part of a larger one. For example, an organization is a system in itself but also is a part of a larger industrial system which in turn is a part of a social system.
3. Its subsystems are interrelated in such a manner that a change in one variable will affect a change in others.
4. Every system has a specific purpose to which all its parts and subsystems contribute for achieving that purpose.
5. Each entity of the system receives information or energy from the other parts within the system and from the system's environment.
6. Each entity processes this information or energy in its own way and sends its output to the rest of the system and to the external world.
7. A system has a tendency to remain in equilibrium by maintaining a balance among the various forces operating within and upon it.
8. A system cannot exist in isolation. It must get its inputs from some other system and its outputs become inputs to other systems.

These characteristics clearly indicate the interdependence of systems and sub-systems with other systems and subsystems in the environment. For example, one of the most useful products DDT, a pesticide which had been widely used to protect crops, was banned in America because of its harmful effects on fish and birds and eventually on human beings. DDT production in itself, as a system, could not survive because of its interaction with other systems. Similarly, Harley-Davidson motorcycle company, which dominated the American motor cycle market almost went bankrupt when it did not recognize its relationship with Honda motorcycle that was introduced in America in the late 1950s. American Motors Company did go out of business because it solely relied on the success of Rambler automobiles and failed to interact with the competition. Accordingly, management must recognize not only the need for harmony and synchronization among the sub-systems within the system, such as production, marketing, quality control, personnel and so on, but also the need for adequate interaction with other systems

outside such as governmental regulations, customers, suppliers, competitors and so on.

Three other concepts of systems theory are useful to understand. First is the concept of “synergy”. Synergy simply means that the whole is greater than the sum of its parts. This means that when one company acquires another company then the resulting output is expected to be higher than the sum of the individual outputs of these two companies. There is a saying in India that, “while one is just a one, two ones make it an eleven”. That is the concept of synergy.

The second aspect is that of “entropy.” Entropy is the amount of disorder present in any system. Systems survive when they behave orderly. A system which is open, such as an organization, but remains closed would have no interaction with other systems and would eventually fail. Living systems, if totally isolated would eventually achieve maximum entropy and die. Accordingly, organizations must always be in tune with the environment and keep on interacting with other systems in order to survive and remain vital.

The third aspect, known as “equifinality” suggests that there may be more than one path leading to the same destination. In closed systems, a direct cause and effect relationship can be found between the initial condition and the final state. For example, in the case of a watch, which is a closed system, there is direct and only relationship between the insertion of the battery and the operation of the watch. The watch will not work any other way. In open systems, however, final states can be reached from different starting points and in different ways. The inflexible cause and effect relationships found in physical sciences do not apply to social sciences. Thus there may not be just “one” best solution to managerial problems *put* there may be many good solutions. For example the goal of expansion may be achieved by introducing new products or by mergers and acquisitions or simply by greater market penetration by promotion and advertising. Similarly, for example, Dow Chemical and Union Carbide can pursue different strategies and be equally successful chemical industries.

#### **1.6.4 Contingency Approaches**

The contingency approach to management, also known as situational approach suggests that there is no “one best way” to manage and organize but rather that successful managerial decisions depend upon the situations and circumstances in which such decisions are made. Early management contributors like Taylor, Fayol and Weber proposed a set of rules and techniques that were assumed to be universally applicable. Later research showed this premise to be too simplistic. While many of these principles are applicable to most situations, none could be applied to “all” situations. More recently, management scholars and researchers determined that virtually a management activity is contingent upon the elements of the situation. This approach requires that managers diagnose a given situation and make decisions relative to the conditions present. For example, it would not be correct to state definitely that students “always” learn more and better in small

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classes than in large ones. The teaching and learning effectiveness would certainly depend upon such “contingency” factors as course content and the teaching style of the instructor. Similarly, “division of labour” may result in the job being too specialized and may hinder efficiency and productivity. Accordingly, overspecialization of a job may not be desirable in all situations. Accordingly, contingency theory proposes that there are no universal principles applicable to management in general and in all situations but that the nature of these principles and techniques would be contingent upon the situation within which a management decision has to be made.

Some of the contingencies affecting the managerial decisions, according to Bateman and Zeithaml are:

- The rate of change and degree of complexity in the organization’s external environment.
- The internal strengths and weaknesses of the organization.
- The values, goals, skills, and attitudes of managers and workers in the organization.
- The types of tasks, resources and technology used by the organization. Depending on the type of situation and contingency, the management would devise appropriate strategies to adequately handle the situation.

### Check Your Progress

6. What is the human relations approach to management based upon?
7. What is a closed system?
8. What is entropy?

## 1.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Megginson, Mosley and Pietri define management as, ‘working with human, financial and physical resources to achieve organizational objectives by performing the planning, organizing, leading and controlling functions.’
2. Diagnostic skill refers to a manager’s analytical ability where a manager can logically and objectively investigate and analyze a problem or an opportunity and use scientific approaches to arrive at a feasible and optimal solution.
3. The management process consists of four basic functions, namely, planning, organizing, directing and controlling.
4. Administration may be defined as ‘the guidance, leadership and control of the efforts of a group of individuals towards some common goals’.
5. Coordination becomes essential when the principle of specialization has been practised in a work area.

6. 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.
7. A closed system is a set of interacting elements without any interaction with the outside environment.
8. Entropy is the amount of disorder present in any system.

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### 1.8 SUMMARY

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- 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.
- Van Fleet and Peterson define management, “as a set of activities directed at the efficient and effective utilization of resources in the pursuit of one or more goal”
- As the organizations grow larger and more complex, they usually develop several levels of managerial positions, forming a hierarchy of superior and subordinate reporting relationships.
- All managers need to possess technical, interpersonal, conceptual, diagnostic, communicational and political skills.
- Managerial 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.
- The management process consists of four basic functions, namely, planning, organizing, directing and controlling.
- Administration is defined 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.
- The classical school of management regards management as a process of getting things done with people operating in organized groups.
- Systems approach to management views organizations as systems functioning in relation to their environment.

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### 1.9 KEY WORDS

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- **Entropy:** It means lack of order or predictability; gradual decline into disorder.
- **Interpersonal skills:** The ability to work with other people amicably involving patience, trust and genuine involvement in interpersonal relationships.

## NOTES

- **Conceptual skills:** The ability to view the organization as a whole and as a total entity as well as a system comprised of various parts and subsystems integrated into a single unit.
- **Diagnostic skills:** An analytical ability to logically and objectively investigate and analyse a problem or an opportunity and use scientific approaches to arrive at a feasible and optimal solution.
- **System:** A group of interrelated parts that function as a whole to achieve a common purpose.

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### 1.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer questions

1. Define management.
2. Differentiate between administration and management.
3. What are the different types of skill that a manager needs to possess?
4. How is coordination an essence of management?

#### Long-Answer questions

1. Examine the different schools of management.
2. Describe the various functions of management.
3. Discuss the different levels of management.
4. Explain the different responsibilities of management.

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### 1.11 FURTHER READINGS

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# UNIT 2    EVOLUTION OF MANAGEMENT THOUGHT

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*Evolution of  
Management  
Thought*

## NOTES

### Structure

- 2.0 Introduction
- 2.1 Objectives
- 2.2 Major Contributions in the Field of Management
- 2.3 Various Approaches to Management
  - 2.3.1 Indian Management Thought
- 2.4 Answers to Check Your Progress Questions
- 2.5 Summary
- 2.6 Key Words
- 2.7 Self Assessment Questions and Exercises
- 2.8 Further Readings

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## 2.0 INTRODUCTION

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Management is essential for an organized life and is necessary to run all types of organizations. Good management is the backbone of any successful organization. A well-managed organization can survive and even prosper during the most difficult economic times whereas business history is full of instances where badly managed companies declared bankruptcy even during economic upturns. This unit discusses the evolution of management and the major schools of management thought. In it, we will examine the early and modern schools of management thought especially examining the contribution of F.W. Taylor, Henri Fayol, Elton Mayo, Chester Bernard & Peter Drucker.

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## 2.1 OBJECTIVES

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

- Examine the contribution of various thinkers to management thought
- Describe the different schools of management
- Discuss Indian management thought

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## 2.2 MAJOR CONTRIBUTIONS IN THE FIELD OF MANAGEMENT

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In this section, we will discuss the major contributions by renowned consultants and authors in the field of management.

## NOTES

### Contribution by F.W Taylor

The first management consultant, 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 first-hand 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 scientific method, instead of custom and rule of thumb, could yield this productivity without the expenditure of more human energy or effort.

### Principles of F.W. Taylor

Taylor published a book titled *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 not a 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 their work, toward their fellowmen and toward their 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 cooperation and mutual

helpfulness, it becomes possible for both the parties to make the surplus so enormous than it was in the past 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 underlying principles of scientific approach to management as seen by Taylor may be summarized as follows:

- Replacing rules of thumb with science.
- Obtaining harmony in group action, rather than discord.
- Achieving cooperation 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 the 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.

### **Contribution by Henry Fayol**

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

This book titled, originally *General and Industrial Management*, in French, was later 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 specialization, which is very well expressed by economists as being a necessary factor to efficiency in the utilization of labour.
- **Authority and responsibility:** In this principle, Fayol conceives authority as a combination of official authority deriving from a manager's official position and personal authority, which is compounded of intelligence, experience, moral worth and past services.
- **Discipline:** Holding the notion that discipline is 'respect for agreements which are directed as achieving obedience, application, energy and the

## **NOTES**

## NOTES

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 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 bring about a reconciliation.
- **Remuneration of personnel:** Fayol perceives that remuneration and methods of payment should be fair and should also afford the maximum satisfaction to the employees and the 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 overall yields.
- **Scalar chain:** Fayol sees the scalar chain as a line of authority, a chain of superiors from the highest to the lowest ranks. Since it is an error on the part 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 and in its (his/her) place. 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 gives the greatest satisfaction to an intelligent man, 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 is an extension of the principle of unity of command. Fayol here emphasizes on the need for teamwork and the importance of communication in obtaining it.

### **Contribution by Chester Bernard**

Chester Barnard developed the theory of cooperation. The focus of this theory is on the study of the organization as a cooperative or collaborative system. A social system is a unit or entity consisting of various social subsystems called groups.

This school of thought is closely related to the human behaviour or the human relations school of thought. It looks upon management as a social system, which refers to a system of cultural inter-relationships. These can be formal organizational relationships or any kind of human relationship. This approach to management being heavily sociological in nature does what the study of sociology does. It identifies the nature of the cultural relationships of various social groups and attempts to show them as an integrated system. The spiritual father of this school was the late

### **Contribution by Elton Mayo**

An Australian born psychologist, industrial researcher, and organizational theorist, 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

## **NOTES**

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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, especially for low level salaried workers.

### **Contribution by Peter Drucker**

An Austrian-born American management consultant, Peter Drucker is a highly respected management thinker. He is a prolific writer and has published several books and articles on management practices. He is so versatile that there is hardly an area in management which is not touched by him. He has 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 bloc countries. His views on management may be summarized 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 customer, if understood in the right manner, will help any organization to achieve success.

Drucker's view on innovation is equally important 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 is of the opinion 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:

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

### **Objective Setting**

Drucker has attached great importance to objective setting. He has asserted 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, which 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 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, a great visionary and futurologist, could visualize the future trends that would affect society. He visualized the concept of modern organization and foresaw its impact on society several years ago. His views on the many facets of the modern corporations have come into practical use now. He describes the present age as the age of discontinuity.

### **Federalism**

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

- It sets the top management free to devote itself to major policy formulations and strategy developments.
- It defines the functions and responsibilities of the employees.
- It creates yardsticks to measure their success and effectiveness in operating jobs.
- It helps to resolve the problem of continuity by educating 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 had a 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, authors, Peters and Waterman, who extensively studied a few American companies, are known for their excellence in modern management practices. McKinsey consultancy firm's contribution of the '7S' model for management and an American professor Edward Deming's thoughts on quality control have had a tremendous impact on modern management all over the world. An American academic, Michael Porter's work on competitive strategy, was path breaking in the strategic management area. In his book on competitive strategy he suggests the ways and means that help organizations and nations to gain a competitive edge.

### **Check Your Progress**

1. Who is claimed as the father of modern management?
2. What was the focus of the theory of cooperation?

## **NOTES**

## NOTES

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### 2.3 VARIOUS APPROACHES TO MANAGEMENT

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The various approaches to the study of management propounded by specialists from different disciplines have come to be known as the schools of management thought. The major schools of management theory are as follows:

1. Management process school
2. Empirical school
3. Human behaviours or human relations school
4. Social school
5. Decisions theory school
6. Mathematical or quantitative management school
7. Systems management school
8. Contingency school

#### 1. Management Process School or the Operational Approach

We studied about this in the previous unit. To summarize briefly, this school regards management as a process of getting things done with people operating in organized groups. Henri Fayol is known as the father of this school. According to this school, management can best be studied in terms of the process that it involves. Those subscribing to this school are of the view that management principles are of universal application. This approach is also designated as the *traditional approach*, the *universal approach* or the *classical approach*. The contributors and thinkers who belong to this school are William Newman, Summers, McFarland, Henry, J.D. Mooney, A.C. Railey, Lyndall Urwick and Harold Koontz.

#### 2. The Empirical School or the Management by Customs 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. Typically, this is done through a case study approach or through the study of decision-making. This school of thought believes that by analysing the experience of successful managers or the mistakes of poor managers, we somehow can learn about applying the most effective management techniques. The main contributors of this approach are Earnest Dale, Mooney and Raliev, Urwick and many other management practitioners and associations like the American Management Association.

#### 3. Human Relations Approach

As discussed earlier, this school takes note of the psychological factors causing a change in the human behaviour in organized groups under a given situation. It is based upon the fact that management involves getting things done through people and therefore management must be centred on interpersonal relations.



#### **4. Behavioural Approach**

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. 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,

Since human behaviour is highly complex, a number of factors may affect the worker's productivity and indeed the feelings of belonging, recognition and participation are important for optimum worker productivity.

#### **5. System Approach**

This school is of recent origin having developed in the later 1960s. It is an integrated approach that 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 emphasizes on the study of the various parts in their interrelationships rather than in isolation from each other.

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- 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 utilized by any other school of management thought.

The main contributors to this school of thought are Kenneth, Boulding, Johnson, Cast, Rosen Zweig and C.W. Churchman. Another important contributor is Martin, particularly in the area of management audit system.

### **6. The Social Systems School**

This school of thought is closely related to the human behaviour or the human relations school of thought. It looks upon management as a social system, which refers to a system of cultural inter-relationships. These can be formal organizational relationships or any kind of human relationships. This approach to management being heavily sociological in nature does what the study of sociology does. It identifies the nature of the cultural relationships of various social groups and attempts to show them as an integrated system. The spiritual father of this school was Chester Barnard who developed the theory of cooperation. The focus of this school of thought is on the study of the organization as a cooperative or collaborative system. A social system is a unit or entity consisting of various social subsystems called groups.

### **7. Decision Theory School**

The decision theory approach concentrates on the rational decisions theory, which refers to the selection of a suitable course of action from various possible alternatives. This approach may deal with the decisions itself, with the person or organizational group who makes the decision or with an analysis of the decision process. By expanding the viewpoint well beyond the process of evaluating alternatives, many people use the theory to examine the nature of organizational structure, the psychological and social reactions of individuals and groups and analysis of value considerations with respect to goals, communication networks and incentives.

### **8. The Mathematical School**

Some theorists see management as a system of mathematical models and processes. According to the approach of the 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.

In the United States, executives have turned increasingly to using computer applications to solve complex problems. Some of these computer applications include airline reservation systems, census reports, compiling technical information into data banks, banking operations, machine-processed accounting organization

and issuance of payroll checks to large numbers of employees, etc. Computer applications can make the work more manageable in fields where a large volume of paper reports or data is involved.

## **9. The Contingency Approach**

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

### **2.3.1 Indian Management Thought**

Indian ethos is derived from texts such as the Mahabharata, the Ramayana, the Vedas, and the Upanishads. One of the basic tenets of management thought that can be derived from such texts is that society acceptable values should be followed in formulating objectives as well as achieving these objectives. Business need not be evil or unethical. In fact, it is sacred. Business is a matter of attitude, approach and management consciousness. Indian ethos is a significant intervention in management thought simply because it takes into account the 'whole' man rather than approaching man in a partial fashion as the other schools of management thought.

#### **Check Your Progress**

3. What do the empirical school consider management to be?
4. What does the contingency approach to management emphasize?

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## **2.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS**

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1. Henry Fayol, a Frenchman, is claimed to be the real father of modern management.
2. The focus of the theory of cooperation is on the study of the organization as a cooperative or collaborative system.
3. The empirical 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.
4. The contingency approach to management emphasizes on the fact that management is a highly practice-oriented and action-packed discipline.

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## **2.5 SUMMARY**

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- Taylor is called the father of scientific management. His 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.

## **NOTES**

## NOTES

- Based on the writings of Max Weber (1864-1920), who was a German sociologist, the bureaucratic form of organization came into being.
- A bureaucratic form of an organization refers to a management approach which is based on a rigid formal organizational structure with set rules and regulations.
- Chester Barnard developed the theory of cooperation. The focus of this theory is on the study of the organization as a cooperative or collaborative system.
- According to Drucker, management has two important functions: innovation and marketing.
- The various approaches to the study of management propounded by specialists from different disciplines have come to be known as the schools of management thought.
- The major schools of management theory are as follows: (i) Management process school; (ii) Empirical school; (iii) Human behaviours or human relations school; (iv) Social school; (v) Decisions theory school; (vi) Mathematical or quantitative management school; (vii) Systems management school; (viii) Contingency school.

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## 2.6 KEY WORDS

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- **Contingency approach to management:** It is a concept in *management* stating that there is no one universally applicable set of *management* principles (rules) to manage organizations.
- **Ethos:** It means the characteristic spirit of a culture, era, or community as manifested in its attitudes and aspirations.
- **Bureaucratic:** It means to be over-concerned with procedure at the expense of efficiency or common sense.
- **Marketing:** It is the action or business of promoting and selling products or services, including market research and advertising.

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## 2.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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### Short-Answer Questions

1. What are the functions of management according to Peter Drucker?
2. Write a short-note on Indian management thought.

### **Long-Answer Questions**

1. Why is F.W Taylor called the father of scientific management? Discuss his principles of scientific management.
2. Describe the major schools of management thought.

### **NOTES**

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## **2.8 FURTHER READINGS**

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## UNIT 3 PLANNING

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### NOTES

#### Structure

- 3.0 Introduction
- 3.1 Objectives
- 3.2 Nature, Scope and Process of Planning
  - 3.2.1 Types of Plans
  - 3.2.2 Planning Process
  - 3.2.3 Objectives and Mission of Planning
- 3.3 Management by Objectives (MBO) and Managerial Decision-Making
  - 3.3.1 Policy, Procedures and Rules
  - 3.3.2 Process and Techniques of Decision-Making
- 3.4 Answers to Check Your Progress Questions
- 3.5 Summary
- 3.6 Key Words
- 3.7 Self Assessment Questions and Exercises
- 3.8 Further Readings

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### 3.0 INTRODUCTION

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Planning plays a pivotal role in the management process. It is the first of the four primary management functions. It sets a direction for the organization. It is undertaken after the mission of the organization is defined and its goals and objectives are 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. Planning may be of different types, such as strategic planning, technical planning, operational planning and contingency planning. Strategic planning undertaken by top management focuses on where the organization will be in the distant 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.

This unit throws light on the nature and process of planning in the beginning. As the unit progresses, it discusses the types and steps of planning. Besides, the unit explains the meaning and role of Management by Objectives (MBO) and its policy, procedures and rules. Finally, the unit explains the various aspects of the decision-making process and problem-solving.

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### 3.1 OBJECTIVES

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

- Discuss the nature and concepts of planning
- Describe the various types of planning and discuss their features
- Describe the steps involved in planning
- Assess the objectives of planning
- Explain the meaning of Management by Objective (MBO) and discuss its role
- Discuss the process of decision-making and problem-solving

### NOTES

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### 3.2 NATURE, SCOPE AND PROCESS OF PLANNING

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Planning is a critical managerial activity. It is the process of determining how the organization can get where it wants to go. It is a primary function of management because all other functions depend upon how the organization plans to achieve its objectives.

Planning is a decision-making activity involving the process of ascertaining objectives and deciding activities that are needed to attain these objectives. In planning, managers assess the future, determine the goals of the organization and develop the overall strategies to achieve these goals. The extent and complexity of planning would depend upon the complexity and multiplicity of objectives. Consider, for example, the planning undertaken by the Atlanta Committee for the Olympic Games (ACOG) held in Atlanta, Georgia, in 1996. While the planning process started more than five years before the due date of the games, consider the challenging task faced by ACOG in 1993, as reported by Business Week.

‘With three years and three months left, facilities costing more than \$500 million dollars including the Olympic Stadium—are still mere blueprints. Raising the estimated \$1.57 billion needed to stage the fourth summer Olympiad on US soil will require big bucks from corporate sponsors, licensing agreements, tickets and most important, broadcast rights’.

Similarly, staging the Asian Games in New Delhi in 1982 required extensive planning that started for years before the games, in building the stadium, new roadways, flyovers and a residential Asiad Village for participating athletes from all over the world. Without proper and detailed planning, success for such colossal events cannot be assured.

Planning is particularly important because of scarce resources and an uncertain environment with a fierce competition for these resources. The basic purpose of planning is to reduce the risk of uncertainties and to initiate a coordinated

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effort within the organization for the purpose of organizational success. It also involves the process of preparing for change and the dynamics of the environment.

As such the planning function has three characteristics. First, planning is anticipatory in nature. This means that a decision has to be made now as to what to do and how to do it before it is actually done. Second, planning is a system of decisions. It involves a process of making decisions that will define what is to be achieved in the future and the formation of action plans for achievement of goals. Third, planning is focussed on desired future results. It is a means of ensuring that the important organizational objectives are accomplished as and when desired.

### Importance of planning

While planning does not guarantee success in organizational objectives, there is evidence that companies that engaged in formal planning, consistently performed better than those with none or limited formal planning and improved their own performance over a period of time. It is very rare for an organization to succeed solely by luck or circumstances. Some of the reasons as to why planning is considered a vital managerial function are as follows:

- **Planning is essential in modern business:** The growing complexity of the modern business with rapid technological changes, dynamic changes in consumer preferences 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 possible future developments.
- **Planning affects performance:** A number of empirical studies provide evidence of organizational success being a function of formal planning, the success being measured by such factors as returns on investment, sales volume, growth in earnings per share and so on. An investigation of thirty-six firms in various industrial products like machinery, steel, oil, chemicals and drugs revealed that companies that engaged in formal planning consistently performed better than those with no formal planning.
- **Planning puts 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 the achievement of these objectives. Plans continuously reinforce the importance of these objectives by focusing on them. This ensures maximum utility of managerial time and efforts.
- **Planning anticipates problems and uncertainties:** A significant aspect of any formal planning process is the collection of relevant information for the purpose of forecasting the future as accurately as possible. This would minimize the chances of making haphazard decisions. Since the future needs of the organization are anticipated, the proper acquisition and allocation of resources can be planned, thus minimizing wastage and ensuring optimal utility of these resources.



- **Planning is necessary to facilitate control:** Controlling involves the continual analysis and measurement of actual operations against the established standards. These standards are set in the light of objectives to be achieved. Periodic reviews of operations can determine whether the plans are being implemented correctly or not. Well-developed plans can aid the process of control in two ways.

First, the planning process establishes a system of warning about possible deviations from the expected performance. The deviations in production, sales, profits and so on may come to light during periodic investigations and hence remedial action can be taken before any harm is done.

Second, contribution of planning to the control process is that it provides quantitative data that would make it easier to compare the actual performance in quantitative terms, not only with the expectations of the organization but also with the industry statistics or market forecasts.

- **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 because the objectives, plans, policies, schedules, and so on are clearly laid down.

### **Advantages and potential disadvantages of planning**

The importance of formal planning has already been discussed. A vigorous and detailed planning programme helps managers to be future oriented. It gives the managers some purpose and direction. A sound blueprint for plans with specific objectives and action statements has numerous advantages for the organization.

Pointwise, the advantages and disadvantages are as follows:

#### **Advantages**

1. Planning gives managers some purpose and direction. Since planning is future oriented, it forces managers to look beyond the present. Also, it creates a unity of purpose, because the objectives are formally expressed and the methods and procedures to obtain these objectives are clearly defined.
2. Proper planning helps in the process of motivation. If plans are properly communicated to all levels of the organization, then everyone can feel involved in carrying them out. When people get involved, their sense of belonging increases and thus they are highly motivated.
3. Planning provides a framework for decision making. Knowing the organizational objectives and the methods to achieve them eliminates ambiguity in the decision-making process. Furthermore, planning provides for feedback, periodic evaluation of programmes and indication for any deviation so that corrective action can be taken, hence making the decision-

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making process a little easier. Also, systematic planning requires an understanding and evaluation of many variables that influence events, hence it is highly unlikely that an important variable will be overlooked which could adversely affect either the decision process or the operation.

4. Proper planning results in effective utilization of organizational resources. Since planning involves the identification of such resources for optimal utility, there is no minimum waste of these resources. This will also reduce unproductive work, idle time of workers, downtime for machines and would logically result in minimum cost of operations.
5. Since accurate forecast of future events is an integral part of effective planning, it reduces the elements of risks and uncertainty. Also, since planning is done in advance of actions, it prevents hasty judgements and haphazard decisions and results in disciplined thinking.
6. It improves the competitive strength of the company in two ways. First, since the operations are planned in advance, the company has the time to shop around for the best and the most competitive rates of raw materials, equipment and parts and for human resources. Second, proper planning gives the company an advantageous edge if it decides to make changes in its line of products or expansion in its plant capacity or changes in methodology.
7. Formal planning forces managers to examine all areas of the organization from all angles and efficiently coordinate the activities of all these areas. Without this process, these managers may ignore or overlook some critical aspect due to time pressures or other factors thus affecting the outcome in a negative way.

### Disadvantages

1. Planning is expensive and time consuming. A good deal of time, energy and capital is involved in setting up the planning machinery for the purposes of gathering and analysing data and testing various alternatives in order to select the one which is most appropriate. Accordingly, the cost of planning and the benefits derived from it must be adequately balanced. Sometimes, proper planning takes up so much time that some useful opportunities can be lost if they require immediate action and such immediate action cannot be taken without proper planning.
2. Planning itself can be a hindrance to innovation. In a planned setup, every operation is pre-planned. This means simply proceeding according to plans and following the rules mechanically. It does not leave any provision for manager's innovation and creativity. (This problem can be overcome to some degree, by making the plans more flexible in order to accommodate any changes generated by new ideas.)

3. Planning can sometimes be very frustrating because it requires a detailed, careful and analytical thought process. Accordingly, it is more of an intellectual exercise. It requires a high level of imagination and analytical ability in addition to total commitment. The talents required and the maintenance of high quality planning together are difficult to achieve.

### 3.2.1 Types of Plans

Organization plans are usually divided into two types, namely, 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.

#### Standing plans

The standing plans are as follows:

- **Policies:** A policy is a statement and a pre-determined guideline that provides direction for decision-making and action taking. 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 objectives and should be consistent with the company's mission and philosophy.

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 the 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 coordinated.

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:

- Be specific or broad in nature
- Deal with one or many aspects of a problems or a situation

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- Place wider or narrow limits within which action is to be taken
- 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 to the outside public.

- **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. They generally indicate how a policy is to be implemented and carried out. They 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. For example, some companies have a policy of reimbursing employees for their educational expenses. To claim such expenses, the employee must follow a set procedure, such as filling a form, attaching a copy of courses taken and grades received, taking it to the personnel office for processing and then waiting for the reimbursement check.

- **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. For example, if it is a rule to report on duty at 9 AM then any person who consistently breaks this rule can be fired. A law in Delhi requires that all car drivers not wearing safety belts while driving are subject to fine.

### Single-use plans

The single-use plans are as follows:

- **Programmes:** A programme is a single-use plan designed to carry out a special project, to solve a problem or achieve a group of related goals. This project or problem is not intended to be in existence over the entire life of the organization like the standing plans. The programme exists to achieve some purpose identified by the organization and this achievement is expected to benefit the organization. For example, an organization may have instituted a management development programme to build special managerial skills such as handling international competition or meeting the management challenges of the next century.

Similarly, a college may have a programme to build a new laboratory or add new class rooms. A business may have a programme to automate its

systems. All these programmes are one-time programmes, no matter how long it takes to complete a given programme or a project. Once the programme's goals are achieved, that programme is discontinued.

- **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. 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.

### 3.2.2 Planning Process

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

**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 overall 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 is going to require a combination of all skills and coordination of all factors. Also in

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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.

### 3.2.3 Objectives and Mission of Planning

Planning, plans and strategies are all means to an end. Accordingly, the end *or* the objective must be very clear. These objectives are ‘those ends which the organization seeks to achieve by its existence and operations’. Objectives, which are desired outcomes and goals which are more concrete aims, both provide direction for the organization. They direct the efforts of the management towards the end. They also provide a standard against which the organization can measure its performance and results. Accordingly, these objectives must be specific, clear, precise, easy to understand, and goals should be consistent with the long-range mission of the organization, and should be established with the following considerations:

- *Environmental conditions:* These conditions include the availability of raw materials, skilled labour, energy and other resources. The long-range objectives must ensure that these resources will not become scarce. Additionally, the objectives must keep abreast with the new technological developments.
- *Economic conditions:* The current economic conditions and economic trend must be seriously considered while setting objectives. The objective of expansion during recession may not be advisable. The economic fluctuations must be assessed and predicted accurately.
- *Internal resources:* There is no point in establishing an objective if we do *not* have the means to achieve it. Accordingly, the objectives should be set relative to the company’s resources of capital, skilled personnel, physical equipment, etc.
- *Anticipating the future:* Future events; being most unpredictable, have a major impact on the realization of objectives. Future opportunities and threats must be identified and as far as possible, they must be incorporated in the organizational plans.

### Hierarchy of objectives

The organizational objectives typically exist in a hierarchy. The broader aims of the company are broken down into hierarchical segments of divisional objectives, departmental objectives, work group objectives and individual employee objectives. Each higher level objective is supported by one or more lower level objectives. This process enables each member of the organization to relate his contribution to the overall objectives. This helps the proper alignment of all organizational levels with the central aim of the organization.

## Advantages of objectives

Peter Drucker has identified eight areas where objectives are necessary and useful. These are: market standing, innovations, productivity, physical, and financial resources, profitability, managerial performance and development, workers' performance and attitudes and public responsibilities. Thus, objectives contribute to every area of management and operations. Specially, objectives are beneficial in the following ways.

- They make the integration of activities possible. It encourages unified planning. Thus, the operations of the organization are not disoriented and haphazard, but are unidirectional towards a common goal. This helps in coordination of different departments and activities resulting in a sense of unity and harmony.
- Objectives serve as guides for decision-making. A clear understanding of organizational objectives gives managers the direction as well as the tools *for* effective decision-making. They no longer grope in the dark but have a clear-cut basis for problem solving and making pertinent decisions.
- Well-defined and clearly understood objectives are motivating elements. Very often when the individuals participate in goal setting or accept them as desirable, then achieving them presents a challenge and becomes a source of satisfaction to the employee. This is especially true if the individual goals are integrated with the organizational goals.
- Objectives act as standards for control. Organizational goals serve as a criteria or standards against which the progress can be measured. Any deviations can be corrected in a timely manner. This reduces costly waste of human efforts and resources, thus increasing the organizational efficiency.
- Sound objectives serve as a basis for decentralization. If the objectives and the process and policies to achieve them are clearly identified, then the decision-making authority can be delegated and assigned to lower level operational management. This would *free* the top management for policy making and growth decisions.

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### Check Your Progress

1. What is planning?
2. Name the two types of organizational planning.
3. What do standing plans refer to?
4. What does the single-use plan focus on?

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### 3.3 MANAGEMENT BY OBJECTIVES (MBO) AND MANAGERIAL DECISION-MAKING

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As the organizations became more complex both in structure as well as the extent of operations, the need for more sophisticated techniques of management arose. The conglomerates created by mergers, acquisitions, or expansions became sufficiently complicated such that it became necessary to devise new methods of managing that would ensure that the desired results are achieved effectively. Additionally as the patterns of the workforce changed so that they became more aware and educated, it was felt that their participation in the affairs of the organization would be useful both for the workers and the company. That is how the more modern concept of participative management evolved. This type of management is known as ‘management by objectives’ or MBO.

The notions behind MBO were supported and made famous by Peter Drucker, who emphasized that ‘business performance requires that each job be directed towards the objective of the whole business’. Even though it is comparatively a new area, a lot of attention has been paid to it, notably by John Humble in England and George Odiorne in America.

MBO is a process in which managers and their subordinates work jointly in outlining objectives and establishing goals. They make joint plans to accomplish these objectives. These goals and objectives are aligned to the company’s goals. George Odiorne has explained the concept as follows:

The system of management by objectives can be described as a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual’s major areas of responsibility in terms of results expected of him and use these measures as guides for operating the unit and assessing the contribution of each of its members.

MBO then can also be referred as management by results or goal management and is grounded on the presumption that participation results in loyalty. In case an employee involves himself in the establishing of goals and also setting measurement standards of performance towards those goals, he will be motivated to perform better and in a manner that directly contributes to the achievement of organizational objectives.

John Humble seems to be highly excited about this new and challenging concept and defines MBO as ‘A dynamic system which integrates the company’s need to achieve its goals for profit and growth with the manager’s need to contribute and develop himself. It is a demanding and a rewarding style of managing a business.’

MBO by definition is a goal-oriented process and not a work-oriented process. Just being busy and doing work is not important, if it does not effectively lead to achievement. It 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 method based upon decided objectives wherein



all the members get involved. These objectives are the same objectives for all those who are involved and the amount or rewards for each member would be decided by the degree of achievement. This results in a just appraisal method. Moreover, a fine MBO plan includes regular and one-to-one superior–subordinate interaction and therefore it improves the communication network.

### 3.3.1 Policy, Procedures and Rules

Some of the elements in the MBO process can be explained in the following manner:

1. **Central goal setting:** The first fundamental phase in the MBO process is the determination and elucidation of organizational objectives which are established by the central management, generally in consultation with the other managers. These objectives need to be exact and practical. In this process, both group managers and top managers are together involved. Once these goals are established clearly, they should be communicated to all the employees of the organization to be clearly comprehended by them.
2. **Manager–subordinate involvement:** When the goals of the organization have been established and determined, the subordinates engage with the managers in setting their personal goals. This kind of mutual discussion is essential as employees are far more motivated in accomplishing objectives that they decided upon to begin with. Subordinates goals are precise and short-termed. Goals should be set by the subordinates in discussion with the individuals who comprise this unit. This way all participate in the setting of goals.
3. **Matching goals and resources:** Objectives by themselves carry no meaning until we have the resources and means to accomplish those objectives. Accordingly, management must ensure that subordinates are supplied with the essential tools and resources to effectively accomplish these goals. Goals precisely set will result in the precise measurement of resource requirement thus leading to an effortless allocation of resource. However, similar to goal setting, allocation of resources must be performed after consulting with the subordinates.
4. **Freedom of implementation:** Manager–subordinate workforce must have sufficient independence to decide the utilization of resources and the means of achieving the objectives. As long as these means are within the larger framework of organizational policies, there should be minimum interference by the superiors.
5. **Review and performance appraisal:** Periodic assessments or reviews of progress between managers and subordinates should be performed. These reviews will help in determining whether is person is making acceptable progress. They will also expose any unexpected troubles. They also help in the clear understanding of the MBO processes to the subordinates. The

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active involvement of the manager himself in his subordinate's performance and progress boosts the morale of the subordinates. However, the performance appraisal at these intermediate reviews should be conducted, based upon fair and measurable standards. These reviews will also assist the manager and the subordinates to modify either the objectives or the methods, if necessary. This increases the chances of success in meeting the goals and makes sure that there are no surprises at the final appraisal.

### **Advantages of MBO**

Henri Tosi and Stephen Carroll have done extensive work in this area and described some of the pros and cons of MBO. Some of the advantages of MBO are as follows:

1. Since MBO is a result-oriented process and focusses on setting and controlling goals, it encourages managers to do detailed planning. As the planning process is improved, it helps in a better overall management system.
2. Both the manager and the subordinates know what is expected of them and hence there is no role ambiguity or confusion.
3. The managers are required to establish measurable targets and standards of performance and priorities for these targets. Since these measurable targets are tailored to the particular abilities of the subordinates, it obtains maximum contribution from them thus providing optimum utility of human resources. In addition, the responsibilities and authority of the personnel is clearly established.
4. It makes individuals more aware of the company goals. Most often the subordinates are concerned with their own objectives and the environment surrounding them, whereas with MBO, the subordinates feel proud of being involved in the organizational goals. This boosts their morale and commitment.
5. MBO often highlights the areas in which the employees need further training. By taking keen interest in the development of skills and abilities of subordinates, the management provides an opportunity for strengthening those areas needing further refinement thus leading to career development.
6. The system of periodic evaluation lets the subordinates know how well they are doing. Since MBO puts strong emphasis on quantifiable objectives, the measurement and appraisal can be more objective, specific and equitable. These appraisal methods are superior to trait evaluation, which is based upon factors such as cooperation, likeability, self-discipline, loyalty, etc., since they focus on results and not on the same subjective intangible characteristics. This evaluation being more objective can be highly morale boosting.

7. It improves communication between management and subordinates. This continued feedback helps clarify any ambiguities and it helps in the process of control so that any deviations can be easily and quickly corrected.

### **Disadvantages of MBO**

The following are some of the disadvantages of MBO:

1. In a classical established structure of our organizations, the authority flows from top to bottom. This creates discipline and better performance. Hence, the top management is usually reluctant to support the process of MBO in which their subordinates would take equal part. Accordingly, MBO can only succeed if it has the complete support of top management.
2. MBO may be resented by subordinates. They may be under pressure to get along with the management when setting goals and objectives and these goals may be set unrealistically high. This may lower their morale and they may become suspicious about the philosophy behind MBO. They may seriously believe that MBO is just another of the management's ploy to make the subordinates work harder and become more dedicated and involved.
3. The emphasis in MBO system is on quantifying the goals and objectives. It does not leave any ground for subjective goals. Some areas are difficult to quantify and even more difficult to evaluate.
4. There is considerable paperwork involved and it is time consuming for the manager. Too many meetings and reports add to the manager's responsibility and burden. Some managers may resist the program because of this increased paperwork.
5. The emphasis is more on short-term goals. Since the goals are mostly quantitative in nature, it is difficult to do long-range planning because all the variables affecting the process of planning cannot be accurately forecast, due to constantly changing socio-economic and technological environment, which affect the stability of goals.
6. Most managers may not be sufficiently skilled in interpersonal interaction such as coaching and counselling, which is extensively required.
7. The integration of MBO system with other systems such as forecasting and budgeting, etc., is very poor. This makes the overall functioning of all systems more difficult.
8. Group goal achievement is more difficult. When the goals of one department depend on the goals of another department, cohesion is more difficult to obtain. For example, the production department cannot produce a set quota if it is not sufficiently supplied with raw materials and personnel.

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**Suggestions for improving the effectiveness of MBO**

The various suggestions for improving the effectiveness of MBO are given below:

1. For MBO to be successful, it is essential to gain the encouragement and commitment of the top management. Managers at the top level of the hierarchy and their subordinates must regard themselves as being members of one team. The meaning of this is that superiors should be prepared to surrender and divide the needed rights with their subordinates.
2. The objectives should be clearly formulated, should be realistic and achievable. For example, it is not realistic for the R & D department of an organization to set a goal of, say, ten inventions per year. These goals should be set with the participation of the subordinates. They must be properly communicated, clearly understood and accepted by all. MBO works best when goals are accepted.
3. MBO must be a complete philosophy of management and the organization as a whole, rather than merely being a process of the division or a strategy for performance appraisal. MBO is a chief responsibility and must take the place of traditional systems instead of simply being added to them. Felix M. Lopex has observed, 'When an organization is managed by objectives, it becomes performance oriented. It grows and it develops and it becomes socially useful.'
4. The goals must be continuously reviewed and modified as the changed conditions require. 'The review technique should be such that any deviations are caught early and corrected'.
5. All participating officials must be provided official training to help them comprehend the fundamentals and the contents of the programme. This training should include the setting of goals, the methods to accomplish these goals, methods of reviews and evaluation of performance and provisions to include any feedback that may be given.
6. MBO system is a major undertaking based upon sound organizational and psychological principles. Hence, it should be totally accepted as a style of managing and should be totally synthesized with the organizational climate. All personnel involved must have a clear understanding of their role authority and their expectations. The system should be absorbed totally by all members of the organization.

**3.3.2 Process and Techniques of Decision-Making**

Decision-making and problem-solving are core functions of management because they are an integral part of all other managerial functions such as planning, organizing, directing and controlling. They are 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 options constitutes a decision. This decision maybe 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.

Rational decision-making and problem-solving may be used interchangeably since a problem has to exist and a decision has to be made to solve such a problem. While most decisions indeed involve a problem, some decisions are part of routine and may not involve a problem. For example, decisions as to what to wear or which movie to see or whether to stay or go for swimming are routine decisions and simple choices among available alternatives, requiring common sense and simple qualitative judgment. Problem solving on the other hand is a much more vigorous process which requires rational inquiry based upon unemotional reasoning, identifying the problem, generating feasible solutions for it, choosing the best solution from a utility point of view and then applying this solution to see if it works efficiently and effectively. In general, while decision-making results in a choice from many alternative courses of action, problem-solving results in resolving the disparities between the desired performance and the performance actually obtained.

Decision-making is a complex mental exercise in reality. Some of the decisions we make are highly significant with highly important consequences. The more significant decisions very often need the exercise of considerable analytical judgement and the quality of such judgement 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.

As we all face the future, its unpredictability brings to us certain situations that are unexpected and hence problematic in nature. As we grow older and share added responsibilities, we develop certain characteristics and some intuitional senses that help us solve some of these problems and we also learn some techniques and methodologies through the acquisition of knowledge and skills, which assist us in solving certain types of problems. These problems require decisions that exist at personal, organizational and social levels.

Individuals must make major decisions regarding their careers, their marriage and family and other decisions, which have far-reaching personal implications. The organizational decisions involve problems relating to investments, products, marketing, location of production or service facilities, dealing with personnel problems, contributions towards community welfare and so on. Societies, in general, have many problems that affect their very survival such as crime, energy shortages, depletion of finite resources, health services, employment, political conflicts among nations and so on. All these problems have to be faced and solved. No person can avoid problems and ignoring a problem is never a solution. As Thomas J. Watson Jr. put it:

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I never varied from the managerial rule that the worst possible thing we could do would be to lie dead in the water with any problem. Solve it, solve it quickly, and solve it right or wrong. If you solved it wrong, it would come back and slap you on the face and then you could solve it right. Doing nothing is a comfortable alternative because it is without immediate risk, but it is an absolutely fatal way to manage a business.

From an organizational point of view, the decision-making process is such an integral and important part of management that some 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 could be built around it. According to Simon:

A theory of administration should be concerned with the process of decision as well as with the process of action.' Even if the decision-making is not the only skill required for effective management, it cannot be denied that in fact it is an essential and highly important skill. This skill is actively utilized in all other functions of management such as planning, organizing, directing and controlling.

Hence, decision-making is widely acknowledged as the centre of executive activity in business and industry and is considered as the major criterion for the evaluation of an executive's administrative performance.

### Defining a problem

Since a problem must exist in order to make a decision for solving it, we must know what the problem is so that we can identify it when it shows up. Being aware of the problem is the first pre-requisite for finding a solution. The Webster's Dictionary defines a problem as, 'a question raised for inquiry, consideration or solution'. While this definition is not complete or self-explanatory in itself, a problem seems to exist when the symptoms of the outcome of an activity do not seem to be conforming to the expected outcome of the same activity as planned. For example, you are going to your office in a car and on the way, you get a flat tyre, then you have a problem since you did not expect this to happen. Similarly, if someone becomes ill, then this is a deviation from the norm of healthy living and this would constitute a problem and the sick person would seek solution to the problem by going to the doctor.

### Structure of problems

According to Harvey G. Brightman, the problems may be of the following types:

- 1. Ill-structured versus well-structured problems:** The ill-structured problems are unique, unpredicted and unprecedented situations. These problems are ambiguous and poorly understood and defy any cut-and-dry solution. These are generally 'one-shot' occurrences for which standard responses are not available and hence require a creative process of problem solving which is specifically tailored to meet the requirements of the situation

at hand. Such problems may involve closing of a plant, buying or merging into a new company, starting a new business and so on. Since ill-structured problems do not have well-structured solutions, such solutions generally rely upon skill, intuition, creativity, experience and considered judgement and carry with them consequences of diverse ramifications. Top-level management generally faces these problems because their environment is complex and is involved with high-level policy decisions.

Well-structured problems, on the other hand, are clearly defined, routine and repetitive, and respond to standardized responses. They are familiar, complete and easily defined, and analysed. These problems are generally faced by lower-level and middle-level managers who have at their disposal a set of rules, policies and procedures that can be used to solve these problems so that such problems do not have to be referred to superiors for solutions. For example, if a professor cuts too many classes, the chairperson of the department can use the prescribed rules to discipline him and the issue does not have to be referred to the president of the college. Similarly, if you buy some merchandise and it turns out to be defective, you can take it back for a refund. The management of the company has a well-structured set of rules and procedures to deal with the problem of making refunds for defective merchandise.

2. **Operating level versus strategic level problems:** Operating level problems are generally well-structured problems encountered by the organization on a daily basis. For example, a newspaper shop owner has the problem of re-ordering the newspapers and magazines every day and he knows when to order and how much to order. Similarly, daily or weekly production levels, inventory levels or sales levels are set and known and standard solutions exist to solve any problems in these areas when they arise. These situations are not new or unique and do not involve any changes in organizational policies or procedures.

On the other hand, strategic-level problems are unique and demand high-level managerial attention. These problems may involve changes in policies and are important in terms of actions taken or resources committed. While operating-level problems do not affect the survival of the organization, strategic level problems do. Sometimes, if the operating-level problems are left unattended, they may become strategic-level problems. For example, if no action is taken against a professor who habitually cuts classes, this may affect other professors, thus making it a moral problem for the college, which then would be considered a strategic level problem.

3. **Crisis versus opportunity problems:** Crisis problems develop suddenly and are totally unexpected at a given time. These may develop within the general framework of expectations so that the management has some types of contingency preparations to handle these crisis situations. For example,

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a forest fire will create a crisis problem but the government and the community are generally prepared to fight the forest fire. Similarly, a major strike at the plant may not have been expected, but the management generally has made provisions to handle the situation. Solving crisis problems is reactive in nature and requires reacting quickly and aggressively to solve the problem. It may be achieved through task forces, who may try to mould crisis situations into familiar problems for which solutions are known to exist.

Opportunity problems are more of challenges, which must be exploited for the betterment of the organization, For example, if an opportunity of a highly beneficial merger arises, and the organization fails to recognize the potential, it would be considered a lost opportunity. Similarly, a slightly increased rate of employee absenteeism may mean some deeper organizational problem and if the management does not recognize this opportunity to deal with the problem, this missed opportunity may blow up into a crisis. Both the crisis problems as well as the opportunity problems are handled by the central management.

### **Problem pointers**

First of all, how do we determine that there is a problem? Even if we know that there is a problem, how do we determine the extent and the seriousness of the problem? According to Miller and Starr, there are certain characteristics that are attributes of problems. One of the major characteristics of the problem is the existence of a deviation between what was expected under a given set of conditions and what actually happened.

Before solutions can be found, the problems must be thoroughly and correctly diagnosed and the decisions concerning solutions to the problems must be dealt with, keeping in view the underlying factors other than the surface symptoms. For example, a doctor prescribing a medicine for a headache as a symptom without looking into the root cause of it, will only provide a temporary relief and not really 'solve' the problem. Accordingly, in properly defining a problem, we must ask some critical questions relating to it. Some of these critical questions may be:

- What type of problem is it?
- How large is the deviation from the norm?
- How quickly has this deviation been observed?
- What are the critical factors relating to the problem?
- Why do we want to solve this problem and when?
- Would the cost of solving the problem be justified?
- Who should solve the problem and what particular method is chosen to solve the problem? These initial questions would indicate the extent of the problem so that we can become fully aware of it and grasp its significance.



It is very important that the problem be diagnosed as early and correctly as possible. For example, cancer, when detected in earlier stages, may be cured, but in advanced stages it can be fatal. The early awareness of the problem is the first pre-requisite for dealing with it. However, sometimes we may not even know that there is a problem when in fact it exists until it is too late. Colon cancer, for example, does not have obvious symptoms for early detection so that the patient may not even know that he has it until in its advanced stage. At other times, we may be aware of the problem but may not consider it serious enough to find a solution until it becomes a crisis. Some problems may hit us when their severity can no longer be ignored. For example, too many lives lost in car collisions may require legislation about seat belts in cars in order to solve the problem of death and injury in car accidents. Similarly, the destruction brought about by typhoons and hurricanes may indicate the problem of inadequate early warning systems.

Another problem pointer is a built-in signal in the process of operations so that whenever there is a deviation from the expected outcome, it gives out a signal. For example, the Internal Revenue Service computer will create and send a signal to alert an administrator if some tax deductions are excessive in a given tax form so that some action can be taken. Similarly, our organizational accounting system can be set up in such a manner that any changes in the cash flow or demand, increase in the cost per unit produced, excessive and delayed state of accounts receivables, excessive inventories at hand and so on will attract the manager's attention quickly for an appropriate action.

Some problems are pointed out by third parties such as a user of a product or a consumer representative group. The problem of toxic wastes almost became a crisis when various consumer groups started pointing out the problem of the community health to the government agencies. Polaroid instant camera came into existence because of a 'consumer complaint,' when the consumer happened to be the daughter of the instant camera inventor, who wanted to look at the pictures taken right away. Thus, if a product is faulty, it can be brought to the attention of the manufacturer. The Federal Safety Commission and Food and Drug Administration in America test products to see if they conform to the prescribed standards. If they do not, then there is a problem for which the solution must be found.

There are some problems that come to surface due to sheer idle curiosity. The problem may not be a real one but may be considered a problem if solving it leads to better outcomes. Such a problem is not really the deviation between what is happening and what is expected, but a deviation between what is happening and what is actually achievable.

For example, when Taylor applied scientific methods to production, the productivity improved tremendously so that there was really no problem in production except that the situation was made into a problem by asking, 'Can we do it better?' Based upon this premise, some organizations are continuously involved in finding problems with existing methods in order to improve upon them.

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In general, a problem exists whenever there is a difference between an actual situation and the desired situation. For example, if the total number of incoming students into a college suddenly falls below than what was expected, then this would pose a problem requiring administrative attention and solution.

### Factors Affecting Decision-Making

Some factors are more important at higher levels of management and others are more important at lower levels. Some of the factors and personal characteristics that have an impact on the decision makers are described below.

- **Programmed versus non-programmed decisions:** As discussed earlier in the types of problems that managers face, programmed decisions are made in predictable circumstances and managers have clear parameters and criteria. Problems are well structured and alternatives are well defined. The problems are solved and decisions are implemented through established policy directives, rules and procedures.

Non-programmed decisions are made in unique circumstances and the results of such decisions are often unpredictable. Managers face ill-structured problems. These problems require a custom-made response and are usually handled by the top management. To start a new business, to merge with another business or to close a plant are all examples of non-programmed decisions. For example, when Steven Jobs and Stephen Wozniak introduced the first Apple microcomputer in 1978, they were not certain about the market for it. Today, Apple Macintosh computer is a major competitor to IBM computers.

- **Information inputs:** It is very important to have adequate and accurate information about the situation for decision-making, otherwise the quality of the decision will suffer. It must be recognized, however, that an individual has certain mental constraints, which limit the amount of information that he can adequately handle. Less information is as dangerous as too much information. Some highly authoritative individuals do make decisions on the basis of comparatively less information when compared to more conservative decision makers.

- **Prejudice:** Prejudice and bias is introduced in our decisions by our perceptual processes and may cause us to make ineffective decisions.

First, perception is highly selective, which means that we only accept what we want to accept and hence only such type of information filters down to our senses. Second, perception is highly subjective, meaning that information gets distorted in order to be consistent with our pre-established beliefs, attitudes and values. For example, a pre-conceived idea that a given person or an organization is honest or deceptive, good or poor source of information, late or prompt on delivery and so on can have a considerable effect on the objective ability of the decision maker and the quality of the decision.

- **Cognitive constraints:** A human brain, which is the source of thinking, creativity and decision-making, is limited in capacity in a number of ways. For example, except for some unique circumstances, our memory is short term, having the capacity of only a few ideas, words and symbols. Second, we cannot perform more than a limited number of calculations in our heads and it is tough to compare all the possible alternatives and make a choice. Finally, psychologically, we are always uncomfortable with making decisions. We are never really sure if our choice of the alternative was correct and optimal until the impact of the implication of the decision has been felt. This makes us feel insecure.
- **Attitudes about risk and uncertainty:** These attitudes are developed in a person, partly due to certain personal characteristics and partly due to organizational characteristics. If the organizational policy is such that it penalizes losses more than it rewards gains, then the decision maker would tend to avoid the alternatives that have some chances of failure. Thus a manager may avoid a potentially good opportunity if there is a slight chance of a loss. The personal characteristics of a decision maker regarding his attitudes towards risk taking affect the success of the decision. The risk-taking attitude is influenced by the following variables:
  - o *Intelligence of the decision maker:* Higher intelligence generally results in highly conservative attitudes and highly conservative decision makers take low risks. There are others who are more willing to take calculated risks if the potential rewards are larger and there is some chance of success.
  - o *Expectation of the decision maker:* People with high expectations are generally highly optimistic in nature and are willing to make decisions even with less information. The decision makers with low expectations of success will require more and more information to decide upon a course of action.
  - o *Time constraints:* As the complexity of the personal habits of the decision maker and the complexity of the decision variables increase, the time required to make a rational decision also increases. Even though there are certain individuals who work best under time pressures and may outperform others under severe time constraints, most people require time to gather all the available information for evaluation purposes. However, most people under time pressure rely on 'heuristic approach', which relies on satisfactory rather than optimal decisions, thus limiting the search for additional information, considering few alternatives and few characteristics of alternatives, and focusing on reasons to reject some alternatives. This approach may also be in use when the cost of gathering information and evaluating all such information is too high.

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**Personal habits:** Personal habits of the decision maker, formed through social environmental influences and personal perceptual processes, must be studied in order to predict his decision-making style. Some people stick to their decisions even when these decisions are not optimal. For example, Hitler found himself bound by his own decisions. Once he decided to attack Russia, there was no going back even when he realized that the decision was not the right one. Some people cannot admit that they were wrong and they continue with their decisions even ignoring evidence which indicates that a change is necessary. Some decision makers shift the blame for failure on outside factors rather than accept their own mistakes. These personal habits have great impact on organizational operations and effectiveness.

- **Social and cultural influences:** The social and group norms exert considerable influence on the style of the decision maker. Ebert and Mitchell define a social norm to be ‘an evaluating scale designating an acceptable latitude and an objectionable latitude for behaviour activity, events, beliefs or any object of concern to members of a social unit. In other words social norm is the standard and accepted way of making judgements’. Similarly, cultural upbringing and various cultural dimensions have a profound impact on the decision-making style of an individual. For example, in the Japanese organizational system, a decision maker arrives at a decision in consensus with others. This style is culturally oriented and makes implementation of the decision much easier since everybody participates in the decision-making process. In America, on the contrary, the decision-making style is generally individualistic with the help of decision models and quantitative techniques.

### **Rational decision-making**

Rational decision-making simply involves following the steps mentioned earlier without any biases introduced into the process at any step. The rational approach to decision-making was devised to assist managers in making objective decisions rather than decisions based on intuition and experience alone. A rational decision maker must establish the reliability of the information received and must be free from perceptual biases. Perceptual biases are introduced when a decision maker has the tendency to filter out information that might be considered threatening to his self-image or his security. An intuitive decision maker may also have motivational biases that would affect the quality of the decision.

### **Bounded Rationality**

While some decisions made by managers on the basis of past experiences have turned out to be excellent, the tendency is towards rational decision-making so that there exist fewer chances of making mistakes in the process. The rational decision maker goes through the five steps mentioned earlier very carefully and makes certain that all relevant aspects of the problem as well as the solution have been looked into. This is important because as human beings we have limited

capacity to absorb information and have the ability to deal with no more than five or six variables at a time. This concept is known as 'bounded rationality'. The attempt to be rational is bounded by the enormous complexity of many problems. In today's environment decisions must be sometimes made very quickly. They may have limited time, limited information and may have to deal with multi-dimensional complex issues. The bounded rationality perspective is often associated with intuitive judgments. It does not mean that the intuitive decisions are not rational, but it means that the manager may not have the resources of time to look at all aspects of the problem or all possible alternatives. He may not look for optimal decisions but satisfactory decisions. For example, a decision concerning a new plant location in the United States could involve the analysis of literally hundreds of possible sites. The manager may decide to look at three or four feasible locations rather than trying to find an optimal location. Selection of one of these locations may be satisfactory to him.

A decision maker's choices are subject to many constraints, both internal as well as external. The internal constraints include the decision maker's intelligence, personality, training and experience, attitudes and motivation. The external constraints include the pressures put on by other members of the organization as well as groups outside it. Accordingly a decision maker might have to balance the quality of the decision with time and money needed as well as his personal characteristics.

### **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.

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.

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### **Non-programmed decisions**

These decisions are unique and become necessary due to certain unexpected and unprecedented situations. For example, introducing a new product and deciding about its marketing strategy would be a non-programmed decision. These are generally 'one-shot' occurrences, for which standard responses are not available and hence require a creative process of problem solving which is specifically tailored to meet the requirements of the situation at hand. Some of such situations are buying a new company or starting a new business or laying off workers and closing a plant during recession or depression. These decisions are not simple and are generally necessary when confronting ill-structured problems and carry with them consequences of diverse ramifications.

### **Group decision-making**

There are many situations which suddenly come up as ill-structured problems confronting the manager requiring him to devise unique solutions. The manager may make the decision himself or he may assign the responsibility to a task force or a group to look at the problem objectively and come up with a recommendation. The group decision would become particularly appropriate for non-programmed decisions because these decisions are complex and few individuals have all the knowledge and skills necessary to make the best decision. However, there are some factors to be considered when determining which approach to take in the process of decision-making. Some of these factors are proposed by Vroom and Yetton as follows:

- The importance of the quality of the decision
- The extent to which the manager possesses the information and expertise to make a high-quality decision
- The extent to which the subordinates have the necessary information to assist in generating a high-quality decision
- The extent to which the problem is structured
- The extent to which acceptance or commitment on the part of subordinates is critical for the effective implementation of the decision
- The probability that the manager's decision will be accepted by the subordinates
- The extent to which the subordinates will be motivated to achieve the organizational goals

Depending upon the above considerations, some of these would necessitate the decision-making process to be initiated by a team or a group including the participation of subordinates as members of such teams or groups, for this would ensure the employee commitment to the implementation of the decision so reached. This is expressed by Argyris as follows:

Groups are valuable when they can maximize the unique contribution of each individual. Moreover, as each individual's contribution is enhanced, his or her commitment to the resulting decision is increased and internalized.

### **Advantages of group decision-making**

In general, it is expected that a group would tend to make more effective decisions than would any single individual. Some of the advantages of group decision-making are summarized as follows:

- Since the group members have different specialities, they tend to provide more information and knowledge. Also, the information tends to be more comprehensive in nature and the group can generate a greater number of alternatives.
- Implementation of the decision is more effective, since the people who are going to implement the decision also participated in the decision-making process. This also increases the commitment of the people to see the implementation to success.
- The input from a large number of people eliminates the biases that are generally introduced due to individual decision-making. It also reduces the unreliability of an individual's decisions.
- The participative decision-making process builds up ground work as a training ground for subordinates, who develop the skills of objective analysis and derive conclusions. Group decision-making is more democratic in nature while individual decision-making is more autocratic in nature. Democratic processes are more easily acceptable and are consistent with the democratic ideals of our society.

### **Disadvantages of group decision-making**

There are certain drawbacks in group decisions also. Some of the disadvantages are as follows:

- It is highly time consuming to assemble the right group and usually a group takes more time in reaching a consensus since there are too many opinions to be taken into consideration.
- Some members may simply agree with the others for the sake of agreement since there are social pressures to conform to and not to be the odd man out. There may be some personality conflicts that may create interpersonal obstacles which may diminish the efficiency of the process as well as the quality of the decision.
- The decisions made by the group may not always be in accord with the goals and objectives of the organization. This is specially true when the goals of the group and those of the individuals do not reinforce each other.
- The group members may exhibit 'focus effect'. This means that the group may focus on one or few suggested alternatives and spend all the time in

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evaluating these and may never come up with other ideas thus limiting the choices.

### **Decision-making under certainty**

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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 on 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 inventory 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 that deal with the problems of using limited resources of a business to obtain a particular objective within given conditions 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 that gives you the lowest cost.

### **Decision-making under uncertainty**

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 pre-determined 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 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. We are still following the same problem except that now the demand probabilities are not known. However, it is established that the four customers are still definite and the maximum demand cannot be more than eight cakes.

### Decision trees

The payoff and opportunity cost tables are useful and convenient when a single decision needs to be made in a single time period, so that the decision is made at the beginning of a given period and the outcomes of the decisions are only estimated once. However, most decisions are time dependent and are sequential in nature so that each decision has an impact on the successive decisions. The decision trees satisfy this complex need where a series of decisions are to be made simultaneously.

A decision tree is a graphical method to display various parts of the decision process, including courses of action, risks involved and likely outcomes. It enables the decision makers to consider alternative solutions, assign financial values to them, estimate the probability of a given outcome for each alternative, make comparisons and choose the best alternative. Barry Shore has proposed the following procedure to solve a problem by the decision-tree method.

1. The problem is illustrated by developing a decision-tree diagram. Each course of action is represented by a separate emerging branch.
2. Each outcome for each course of action is assigned a probability, which is the most likely chance of that particular outcome occurring.
3. The financial results of each outcome are determined.
4. The expected value for each outcome is calculated and the alternative which will yield the highest expected value is chosen.

**Brainstorming:** Brainstorming is a strategy for stimulating innovative and new thoughts and ideas. It engages a group of people, generally ranging from five and ten seated around a table in a classroom location, producing ideas in the form of independent association. This generates a variety of ideas and solutions. The leader of the group briefly defines the problem and encourages the participants to suggest as many innovative, extreme and even wild ideas as possible and they are not allowed to discourage or criticize the ideas of others, no matter how far fetched such ideas may be. The idea of brainstorming is to create a climate in which people

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feel free to suggest whatever comes into their heads without caring about its feasibility. This encourages free-wheeling and one idea sometimes leads to another idea. This free association and unrestricted thinking may generate some novel idea and a unique solution that may not have been thought of before.

### **Creativity**

Creativity and critical thinking are essential for making effective and unique decisions. 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. Creative thinking is important to bring about novel and unique ideas and critical thinking is necessary to criticize and test these ideas so that they are feasible and optimally beneficial.

Creativity, though not tangible, is an essential ingredient of organizational growth. Without creativity, organizations would be stale, non-dynamic entities and their employees would stagnate into nothingness. Creative and bold decisions have contributed significantly to product improvement in inventing a new use for an existing product as well as inventing a new product or service.

Creativity can be defined as, ‘socially recognized achievement in which there are novel products to which one can point as evidence such as inventions, theories, buildings, published writings, paintings and sculpture and films, laws, institutions, medical and surgical treatments and so on’.

Creativity and creative ideas must be socially useful and recognized. Some ideas may be creative but so eccentric that they may not have any socially redeemable value. Accordingly, the utility and usefulness would determine the value of creativity. This usefulness may be materially beneficial or intellectually stimulating.

Creativity primarily means originality in ideas. An original idea is considered to be the one that has never occurred before. If such an idea is the outcome of some established procedure of manipulating variables, it may not be considered original. Only when a pattern of manipulations has never been applied to a given situation before, can the results be considered new and original. A young school student, when asked, ‘Why do we build brick houses rather than wooden houses?’ replied that it was done to save the forests. This was a novel response. The routine response would have been that a brick house is stronger and more resistant to fire. Accordingly, originality can be associated with ‘those ideas that result from manipulations of variables that have not followed a rigid formula and in which the ideas have other sources of strength’. The world as we know it now would not have been possible without creative ideas having been put into production. The steam engine that revolutionized the world of travel was a novel application of an existing idea that steam under pressure tries to escape. We also have a much better control of the world than our ancestors had and this has been because of discovery and inventions that were based upon a strong element of originality. Heavy rains and typhoons, once considered as acts of God, are now fairly predictable because of original inventions in the field of meteorology. Advances in

medical sciences have saved millions of lives and tremendously increased the average life span. We still have a lot of areas to cover within this world and out of it in outer space, and original ideas are being generated daily and put into practice.

### Creative problem-solving

The creative problem-solving process follows the following broad outline:

- **Preparation:** Preparation involves a hard and concentrated look at the problem at hand and its various parameters in order to develop a breakthrough solution. Scientists work in their labs, sometimes for many years, before they get a creative idea. The general tendency of the scientists is to look at the various tentative solutions available for a problem. These tentative solutions are generally routine and known solutions and hence do not lead to new and unique outcomes. The more tentative solutions there are, the more difficult it would be to generate another different solution. It is the generation of this new solution that differentiates a creative thinker from a non-creative thinker. The non-creative thinker would be satisfied with a satisfactory and known solution. It is the creative thinker who will continue to look for a different and unique solution. Accordingly, preparation in the form of education, training and research is an essential foundation to build creativity.
- **Incubation:** Incubation is a time of thought and reflection and is generally a period when the conscious attention is turned away from the problem at hand. The main idea is the observation that some creative and innovative ideas come to mind when you are not really thinking about them—a kind of result of thinking by the ‘unconscious mind’. It is some thing like ‘sleeping over’ the issue and not thinking about it. Creative people use many different methods to provide this incubation period. They may go fishing or read a book or take a nap. This incubation period is unpredictable in timing and duration. It may take a day or many years. The main idea is that the conscious mind usually looks for familiar channels that are known and thus not new or creative. But the unconscious mind, free from the constraints of the conscious mind, is able to look at the issue from new angles or put information together into new combinations.
- **Persistence:** Merely providing an incubation period does not necessarily result in creative breakthroughs. Sometimes persistent effort is necessary. Persistent effort would make it more likely that more and new information would be added to the decision maker’s frame of reference or the problem could be re-defined that could generate new and different conclusions. This is specially true about highly creative persons. According to Daniel Goleman, ‘the picture of the exceptionally creative person shows that at its high levels, creativity involves important sacrifices. For people at the most exceptional level, creativity is a pervasive, almost compulsive pre-occupation; innovative activities dominate their lives often to the detriment of other aspects of living.’

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Persistence means not only total involvement in the area of issues under consideration but also requires courage and perseverance in the face of repeated failures or criticism. Most new ideas in the beginning meet with resistance; for example, when instant coffee was first introduced in the consumer market, it was resisted by housewives who felt that their self-reliance and self-esteem were threatened and that they would be known as lazy and non-caring about the family. Accordingly, highly creative persons remain committed to their ideas no matter what the cost or the consequences.

- **Insight:** Insight is the actual point of breakthrough achieved as a result of preparation and incubation. It is the tentative outcome of persistent efforts and thinking when the individual believes that he has found a unique solution to the problem under study. This is the result of extensive analysis of various factors and various combination of factors, even though the creative idea generally comes up suddenly and unexpectedly. It is a kind of 'eureka' state that brings excitement where the person finds what he was looking for and which was deluding him previously.
- **Verification:** Now the 'insight' or the new idea has to be tested to make sure that the idea is valid and feasible. It is a kind of a critical stage because if an idea is put into practice without measuring its potential utility in a significant manner, then it could turn out to be the wrong decision. The idea may fail in the critical stage, so other ideas may have to be created. A scientist must verify his hypothesis through critical analysis or through laboratory procedures, whichever is necessary and if the hypothesis cannot be proven, the scientist must formulate an alternate hypothesis. Similarly, if a manufacturer has a unique idea for a new product, he should not put the product into the market until he has criticized, verified and tested the idea for its marketability.

### Check Your Progress

5. Define MBO.
6. What is the first fundamental phase in the MBO process?
7. What are the core functions of management and why?
8. What are ill-structured problems?
9. What are well-structured problems?

## 3.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Planning is a decision-making activity involving the process of ascertaining objectives and deciding activities that are needed to attain these objectives.

2. The two types of organizational planning are standing plans and single-use plans.
3. Standing plans refer to those plans that remain roughly the same for long periods of time and are used in organizational situations that occur repeatedly.
4. Single-use plans focus on relatively unique situations within the organization and may be required to be used only once.
5. MBO can be defined as ‘A dynamic system which integrates the company’s need to achieve its goals for profit and growth with the manager’s need to contribute and develop himself. It is a demanding and a rewarding style of managing a business.’
6. The first fundamental phase in the MBO process is the determination and elucidation of organizational objectives which are established by the central management, generally in consultation with the other managers.
7. Decision-making and problem solving are the core functions of management because they are an integral part of all other managerial functions, such as planning, organizing, directing and controlling.
8. The ill-structured problems are unique, unpredicted and unprecedented situations. These problems are ambiguous and poorly understood and defy any cut-and-dry solution.
9. The well-structured problems are clearly defined, routine and repetitive, and respond to standardized responses.

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### 3.5 SUMMARY

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- Planning is a decision-making activity involving the process of ascertaining objectives and deciding activities that are needed to attain these objectives.
- The extent and complexity of planning would depend upon the complexity and multiplicity of objectives.
- Planning is particularly important because of scarce resources and an uncertain environment with a fierce competition for these resources.
- While planning does not guarantee success in organizational objectives, there is evidence that companies that engaged in formal planning, consistently performed better than those with none or limited formal planning and improved their own performance over a period of time.
- The effectiveness of formal planning is primarily based upon clarity and specificity of objectives.
- A significant aspect of any formal planning process is the collection of relevant information for the purpose of forecasting the future as accurately as possible.
- 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.

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- Since planning involves the identification of such resources for optimal utility, there is no minimum waste of these resources.
- Since planning is done in advance of actions, it prevents hasty judgements and haphazard decisions and results in disciplined thinking.
- Policies must be based upon a thorough analysis of objectives and should be consistent with the company's mission and philosophy.
- A rule is meant to be strictly followed and is generally enforced by invoking penalties.
- A strategic plan usually covers a time period of up to ten years and involves a major commitment of resources.
- Contingency planning is proactive in nature and the management tries to anticipate changes in the environment and prepares to cope with future events.
- As the organizations became more complex both in structure as well as the extent of operations, the need for more sophisticated techniques of management arose.
- MBO by definition is a goal-oriented process and not a work-oriented process.
- When the goals of the organization have been established and determined, the subordinates engage with the managers in setting their personal goals.
- Rational decision-making and problem solving may be used interchangeably since a problem has to exist and a decision has to be made to solve such a problem.
- Decision-making is a complex mental exercise in reality. Some of the decisions we make are highly significant with highly important consequences.
- Individuals must make major decisions regarding their careers, their marriage and family and other decisions, which have far-reaching personal implications.

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### 3.6 KEY WORDS

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- **Strategic planning:** It is the process of determining overall objectives of the organization and the policies and strategies adopted to achieve those objectives.
- **Contingency planning:** It is the determination of alternative courses of action to be taken if the original plans are disrupted or become inappropriate due to changed circumstances.
- **MBO(Management by Objective):** It is a process in which managers and their subordinates work jointly in outlining objectives and establishing goals.
- **Incubation:** It is a time of thought and reflection and is generally a period when the conscious attention is turned away from the problem at hand.

- **Brainstorming:** It is a strategy for stimulating innovative and new thoughts and ideas.

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### 3.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. List the salient features of planning.
2. State the advantages of planning.
3. Write down the disadvantages of planning.
4. Write a note on contingency planning.
5. List the advantages of MBO.
6. What are the advantages of group decision-making?
7. Write a short note on rational decision-making.
8. What is creative problem-solving?

#### Long-Answer Questions

1. Discuss the nature of planning.
2. Describe the concept of planning.
3. Explain the mission and objectives of planning.
4. Discuss the concept of MBO.
5. Explain the suggestions for improving the effectiveness of MBO.
6. Analyse the steps in decision-making.
7. What are the factors affecting decision-making?
8. Critically evaluate the importance of creativity and critical thinking.

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### 3.8 FURTHER READINGS

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- Chandan, J.S. 2007. *Management: Concepts and Strategies*. Noida: Vikas Publishing House.
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## UNIT 4 ORGANIZING

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### NOTES

#### Structure

- 4.0 Introduction
- 4.1 Objectives
- 4.2 Concept, Nature, Process and Significance
  - 4.2.1 Span of Control and Authority
  - 4.2.2 Types of Organization
- 4.3 Departmentation
- 4.4 Answers to Check Your Progress Questions
- 4.5 Summary
- 4.6 Key Words
- 4.7 Self Assessment Questions and Exercises
- 4.8 Further Readings

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### 4.0 INTRODUCTION

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Organizing is the second function of management and involves primarily creating of activities and assigning the suitable workers to complete these activities successfully, efficiently and effectively. Organizational objectives are well defined and the activities are primarily undertaken to achieve these objectives. Activities that are well organized and coordinated result in optimal use of resources and reduce or eliminate waste and idle times of both the machines and the workers. There is a well-structured chain of command and authority that either flows from top to bottom or is properly delegated to the lower levels of the managerial hierarchy. The organizational structure also determines the levels of management. The tendency today is towards fewer levels of management and such organizations are known as lean organizations.

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### 4.1 OBJECTIVES

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

- Discuss the concept of organizing
- Explain the steps involved in the organizing process
- Describe the span of management
- Describe the different forms of organization

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### 4.2 CONCEPT, NATURE, PROCESS AND SIGNIFICANCE

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The organizing function is extremely important, because once the objectives of the organization and the plans have been established, it is the primary mechanism with



which managers activate such plans. Organizing is the function of gathering resources, establishing orderly uses for such resources and structuring tasks to fulfil organizational plans. It includes the determination of what tasks are to be done, how the tasks are to be grouped, who is going to be responsible to do these tasks and who will make decisions about these tasks.

### What is Organizing?

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. A definition of organization suggested by 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:** The word social as 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. Organizations will cease to exist if there are no people to run them, even if other things remain. For example, if everybody resigns from a company and no one is replaced, then it is no longer an organization even though all the material assets of the company remain until disposed off. On the other hand, there are organizations such as neighbourhood associations, which have only people in them and no physical assets. Accordingly, it is the people and their roles that are the building blocks of an organization.
2. **Goal directed:** All efforts of an organization are directed towards a common goal. A common goal or purpose gives organization members a rallying point. For example, Ross Perot, Chief Executive Officer (CEO) of Electronic Data Systems (EDS), recommended when he joined General Motors that GM should strive to become the finest car manufacturer in the world. This became the common goal of all GM employees. While the primary goal of any commercial organization is to generate financial gains for its owners, this goal is inter-related with many other goals, including the goals of individual members. For example, General Motors may have the commercial goal of

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producing and selling more cars every year, community goal of reducing air pollution created by its products, and the employee goals of earning and success achievement.

**3. Deliberately structured activity systems:** By systematically dividing complex tasks into specialized jobs and categories of activities into separate departments, an organization can use its resources more efficiently. Subdivision of activities achieves efficiencies in the workplace. The organizations are deliberately structured in such a manner so as to coordinate the activities of separate groups and departments for the achievement of a common purpose.

**4. Permeable boundary:** All organizations have boundaries that separate them from other organizations. These boundaries determine as to who and what is inside or outside the organization. Sometimes, these boundaries are vigorously protected. However, the dynamics of the changing world has made these boundaries less rigid and more permeable in terms of sharing information and technology for mutual benefit. For example, IBM joined with both Motorola and Apple Computers in 1993 to bring out a new Power PC chip in the market.

### Significance of Organizing

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.

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 that 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.

### **Principles for Effective Organization**

There are some established guidelines or principles 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:

1. 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.
2. 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.
3. 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.
4. 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.

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This is especially 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.

5. 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.
6. 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 inter-related to the total integrated system by means of coordination of all activities of all departments.
7. 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 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.
8. 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 inter-dependent these positions are. The more inter-dependent 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.
9. The 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 time demands. Furthermore, simplicity would make communication easier, faster and accurate, which is necessary for successful organizations. While these principles, in general, apply to classical organizations as proposed by Frederick Taylor and Henri 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 optimize the utility of all resources in reaching the goals of the organization.

### Process of Organizing

The process of organizing consists of the following five steps.

1. **Reviewing plans and objectives:** The first step for the management is to reflect on the organizational goals and objectives and its plans to achieve them so that proper activities can be determined. For example, if a high-class restaurant is to be opened in an elite area, then the management must establish objectives and review these objectives so that these are consistent with the location of the restaurant and the type of customers to be served.
2. **Determining activities:** In the second step, managers prepare and analyse the activities needed to accomplish the objectives. In addition to general activities such as hiring, training, keeping records and so on, there are specific activities that are unique to the type of business that an organization is in. For example, in the case of restaurant, the two major activities or tasks are cooking food and serving customers.
3. **Classifying and grouping activities:** Once the tasks have been determined, these tasks must be classified into manageable work units. This is usually done on the basis of similarity of activities. For example, in a manufacturing organization, the activities may be classified into production, marketing, finance, research and development and so on. These major categories of tasks can be subdivided into smaller units to facilitate operations and supervision. For example, in the area of serving customers in the restaurant, there may be different persons for taking cocktail orders, for food orders and for clearing the tables. For cooking food, there may be different cooks for different varieties of food.
4. **Assigning work and resources:** This step is crucial to organizing since the correct individual must be matched to the appropriate job and should be supplied with the resources to achieve the assigned tasks. The management of the restaurant must determine as to who will take the orders and who will set as well as clear the tables and what the relationship between these individuals will be. Management must also make sure that adequate resources of food items, utensils and cutlery are provided as necessary.
5. **Evaluating outcome:** In this last step, feedback about the outcomes would decide about the effective functioning of the executed organizational techniques. This feedback will also decide if any modifications are essential or wanted in the organizational setup. For example, in the case of the restaurant, complaints and suggestions from customers would assist the

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manager in making any necessary changes in the preparation of food, internal decor of the restaurant or efficiency in service.

- **Philosophy and strategy of the organization:** Strategy is typically defined as ‘the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.’

In his research, Alfred Chandler found a definite link between organizational philosophy and strategy and its structure. In small and simple organizations, the structure is typically high on centralization. However, as organizations grow and develop, such simple structures become increasingly ineffective and inefficient and the organizations change their strategies and thus change their structures.

There are primarily two strategies, namely, stability strategy and growth strategy. The growth strategy involves expansion, thus introducing the element of complexity and uncertainty. In such type of environment, growth strategies will be more successful when supported by organic structures.

### 4.2.1 Span of Control and Authority

Once the organizational goals and objectives have been established and activities and operations have been assigned to individuals and groups, management must form a structure so that processes and activities can be coordinated and efforts directed through such a structure towards achieving the organizational goals. Early in the development of management theory, managers saw the need for a vertical structure to link the job activities at various levels and to facilitate communication among these levels. These managers associated certain elements as integral to the vertical organizations. Some of the basic elements are: (i) chain of command, (ii) authority, delegation and responsibilities, (iii) span of control, and (iv) centralization and decentralization. Here we will discuss chain of command, authority and span of control.

#### Chain of Command

A chain of command is a hierarchical line of authority that connects employees and managers, from the workers up to the top level of the organization. It also defines the relationship between the superior and the subordinate and as to who reports to whom.

The chain of command has two components. The first, known as ‘unity of command’, suggests that each person within an organization should report to one and only one direct superior and take directives from the same supervisor. The second component is known as the ‘scalar principle’, which states that a clearly defined line of authority should run in the order of rank, through the successive layers of managers and supervisors, from the top management to the lowest level of workers.

Because the chain of command creates a direct link between one level to the immediate upper and lower levels of the hierarchy, no role is left unsupervised or uncoordinated. However, strict following of the chain of command creates two problems. First, it is very time consuming in cases where people in different departments, but at the same level of hierarchy, need to communicate with each other on some urgent matters. Henry Fayol who introduced chain of command as one of his principles of administration solved this problem by proposing the 'gang plank' principle, where such people could communicate with each other directly but with the permission of their immediate superiors. However in such situations, the respect for the line of authority must be reconciled with the need for time saving swift action.

In a classical scalar chain, for example, as shown below, a production supervisor E would have to ascend to the hierarchical position A and then descend to marketing supervisor K in order to pass a lateral message.

The gang plank principle avoids this problem so that E and K can communicate with each other to discuss and solve common problems.

The second problem with unity of command is that the operating relationships developed through staff departments sometimes interfere with the strict hierarchical relationships. For example, on a given day, a worker may be asked to accept guidance from human resources about employment practices, from finance about the budget, and from data processing about computer procedures and applications. This can cause role ambiguity and hence confusion in communications and relationships.

Another difficulty with the chain of command is that as the organizations become larger and increasingly more complex, the structure of such reporting relationships becomes inefficient and more difficult to implement. In such cases, other forms of organizational structures are designed and implemented.

### **Authority**

According to Henry Fayol, 'authority is the right to give orders and the power to exact obedience'. Authority gives the management the power to enforce obedience. It is the power to give orders and make sure that these orders are obeyed. Authority can be retained by the central management which makes policies and decisions and then it is passed on to lower levels for action through the various levels of hierarchical structure. Authority can also be delegated to proper subordinates who can make decisions relative to their operations. This process is known as decentralization. This must be noted however that while the authority may be delegated to subordinates, the responsibility for their actions must lie with each superior.

While authority in organizations is vested in the position of the person in the hierarchy by virtue of organizational policies, there are various types of authority

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that may be at play in terms of ensuring that the directives issued by the person with authority are being followed. There are basically the following types of authority.

**1. Legal authority:** This authority is based upon the rank of the person in the organization and such authority may be given by law or by social norms, rules and regulations protected by law. For example, law has granted a police officer, the authority to arrest anyone who has committed a crime. Similarly, the president of a company has the right to fire an employee because that is how the rules and policies of the company have been established. This type of authority is similar to power which is the capacity to secure dominance of one's goals and beliefs. This authority has been called formal authority which has been legalized through social institutes which attain and enforce group goals, objectives and welfare through a maze of laws, codes, cultures and ethics.

This type of authority is embedded in the bureaucracy where the authority is bestowed upon contractually hired and appointed officials. For example, shareholders of an organization give the authority to Board of Directors, who in turn pass it on to the Chief Executive and so on. The shareholders have this authority, to start with, because they bought the shares in the company and society, through its complex structure, gives them this authority.

While bureaucracy is the purest form of legal authority, other forms of such authority may comprise of rotating office holders, elected officials, or office holders chosen by lot. They have similar authority since they must follow the same rules and regulations which govern their positions and define the limits of their authority. Some examples are the elected officials, such as the president of a country or a member of parliament or a community leader.

**2. Traditional authority:** This authority is based upon the belief in traditions and the legitimacy of the status of people exercising authority through those traditions. Such traditions have evolved from a social order and communal relationships in the form of the ruling 'lord' and the obedient 'subjects'. The obedience results on the premise of traditional 'piety' and traditional respect and identity of the 'lord' or the king or the tribal chief. The traditional chief generally makes rules and decisions at his own pleasure. Traditional authority is the basis for control for monarchs and churches and for some organizations in Latin America and the Persian Gulf. For example, the kings in Jordan and Saudi Arabia have such traditional power and authority.

**3. Charismatic authority:** The charismatic authority rests on personal charisma of a leader who commands respect of his followers on the basis of his personality and his personal traits such as intelligence and integrity. This is especially true of religious and political leaders. The



followers become highly attached to the leader, partly because the leader's goals seem to be consistent with their own needs. A charismatic leader is a forceful orator and generally has hypnotic effect on his followers who accept his command and authority. President John F. Kennedy of America was known to have such a charisma and hold on people that many succeeding presidential candidates tried to imitate his style. Some organizational leaders are also known to be charismatic and are responsible for the success of their organizations at least partly due to their personal charisma such as Lee Iacocca of Chrysler Corporation or J.R.D. Tata of Tata Enterprises.

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- 4. Acceptance theory of authority:** The authority of the superior has no meaning unless it is accepted by the subordinates and is enforceable. Chester Barnard was the early proponent of this approach and considered authority as 'giving orders' and these orders would be carried out only if they are within the subordinate's 'zone of acceptance'. The range of the zone of acceptance is a function of the benefits derived from it and the degree of dedication and motivation of the employee. A subordinate will accept an order if he understands it well and if he believes it to be consistent with the organizational goals. Furthermore, such an order should not be incompatible with his personal goals and interests on the whole.

The acceptance theory, though supporting the behavioural approach to management, presents many logistic problems. It undermines the role of the managers as defined by the organizational set-up. It shows that the authority flows from the 'bottoms up.' It means that it is the subordinates who decide which authority will be exercised. It is not technically feasible for the management, in all situations, to consult with the subordinates and seek their acceptance before any directions can be given and followed. However, in many organizations and situations, management by objectives (MBO) and participative decision making style of management have been successfully employed.

- 5. Competency theory of authority:** This is also known as 'technical authority' and is implicit in a person's special knowledge or skill. For example, when a doctor advises you to rest, you accept his 'order' because you respect his knowledge and his skills as a doctor. Again, this order will not get results unless you accept and obey and in that sense it rests on acceptance theory of authority. Similarly, you accept the diagnosis of the car mechanic, without question when something is wrong with the car simply because you believe that 'the mechanic knows'.

### Span of Control

The span of control is defined as the number of subordinates under one manager. In a wider span of control, a manager has many subordinates who report to him.

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In a narrow span of control, a manager has fewer subordinates. The number of subordinates that can be effectively managed for supervision and delegation of authority would depend upon a number of factors. Some of these factors are as follows:

- 1. Similarity of functions:** If the subordinates are involved in same or similar activities, then it is possible for the manager to supervise more subordinates. Since the problems that may arise would be similar in nature, these would be easier to handle. Conversely, if these subordinates are involved in diversified operations, the situation would be more complex and hence the span of control should be narrow.
- 2. Complexity of functions:** If the operations that employees are performing are complex and sophisticated and require constant supervision, then it would be more difficult for the manager to manage too many employees.
- 3. Geographical closeness of employees:** The closer the subordinates are in a physical location, the easier it will be for the supervisor to manage more employees.
- 4. Direction and coordination:** The span of control would also be determined by the degree of coordination required, both within the unit and with other units of other departments. If the unit needs continuous direction and extra time of the manager in coordinating the activities, then fewer subordinates would be better supervised.
- 5. Capability of subordinates.** Subordinates who are trained and experienced need little supervision in discharging their duties. In such situations more subordinates can be effectively supervised. These subordinates can further be assisted by providing them with 'standing plans' which are applicable in repetitive actions and recurring problems, requiring less direct supervisory assistance.
- 6. The working staff of the manager.** If the manager has the supporting staff that is equally skilled in handling difficult situations, then it would be possible to manage a wider span of control because the responsibility of supervision would be shared.

The span of control has a crucial influence on a manager's effectiveness. Too wide a span would put heavy burden on management in effective guidance and control and too narrow a span would mean underutilization of managerial capacity and ability. The number of subordinates under one manager would also depend upon the level of the manager in the organizational hierarchy. It is not uncommon to find a factory production supervisor with fifteen or more subordinates. Conversely, it is uncommon to find a corporate vice-president with more than three or four subordinates. Another factor that can influence the span of control of a manager is the company's philosophy towards centralization or decentralization in decision making.

### 4.2.2 Types of Organization

The structure or type of the organization 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 utilization 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.

A good organizational structure is needed so that:

- (a) Each individual in the organization is assigned a role, responsibility and necessary authority, Each person who is assigned to an activity must know his position, his role and his relationship with others. He is further responsible for efficient execution of his role and his duties and is given the authority to do so.
- (b) The activities of all individuals are coordinated and integrated into a common pattern in order to achieve the organizational objectives. Organization is needed for the purpose of integration of diverse activities in a cohesive manner.
- (c) The optimum use of human skill and efforts is achieved. It is said that half of the work is done when you know what you have to do and how you have to do it. A good organization does that. A good organization assigns the right person to the right job and this avoids misapplication of human resources, thus resulting in optimum utilization of employee efforts.

#### **Mechanistic versus organic structure**

The organizational structure is designed both from mechanistic as well as humanistic point of view and the structure depends upon the extent to which it is rigid or flexible. Flexible structures are also labelled as 'organic'.

The mechanistic organizational structure is similar to Max Weber's bureaucratic organization. Max Weber, a German sociologist, and his associates examined many different organizations to empirically determine the common structural elements and emphasized those basic aspects that characterize an ideal type of organization. Weber looked for rules and regulations, which when followed, would eliminate managerial inconsistencies that contribute to inefficiency. He believed in strict adherence to rules which would make bureaucracy a very efficient form of organization founded on the principles of logic, order and legitimate authority. He strongly believed that every deviation from the formal structure

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interferes with efficient management. The basic characteristics of an organization based on mechanistic structure are as follows:

- 1. Division of labour by functional specialization:** A maximum possible division of labour makes it possible to utilize, in all links of the organization, experts who are fully responsible for the effective fulfilment of their duties.
- 2. A well-defined hierarchy of authority:** Each lower official is under the control and supervision of a higher one. Every subordinate is accountable to his superior for his own decisions and in turn, the actions of his subordinates.
- 3. A system of rules covering the duties and rights of all employees:** These rules should be clear-cut and the responsibility of every member in the organization must be clearly defined and assigned and strictly adhered to.
- 4. A system of procedures for dealing with work situations:** These procedures must be time tested and equally applicable under similar situations at work.
- 5. Impersonal relations among people:** Rewards are based upon efficiency rather than nepotism or personal preferences. The functioning of the organization based upon rational and objective standards excludes the intervention of personal considerations, emotions and prejudices. The unbiased approach predictably leads to optimal efficiency.
- 6. Selection and promotion of personnel based upon technical competence and excellence:** Employees are selected on the basis of a match between the job requirements and employee capabilities. The system of promotions corresponds to seniority or merit or both. Because of the rules and policies governing the organization, employees are protected against arbitrary dismissal or demotion.

Organic structures also known as ‘adhocracies’, on the other hand, are sufficiently flexible in order to cope with rapidly changing environments. These structures are more effective if the environment is dynamic, requiring frequent changes within the organization in order to adjust to the new changed environment. It is also considered to be a better form of organization if the employees seek autonomy, openness, change, support for creativity and innovation and opportunities to try new approaches. These organizational structures are characterized by the following:

- 1. Tasks and roles are less rigidly defined:** There is little emphasis on formal job descriptions and specializations. The authority to solve problems is given to those who are capable of solving such problems irrespective of their position or status.
- 2. Decision-making is more decentralized:** The decisions are made at the scene of operations so that there is no assumption that people in higher positions are more knowledgeable than people in lower positions.

3. **The atmosphere is more collegial:** The employees are friendlier and respectful to each other so that there is more information and suggestions rather than instructions, directions and decisions from higher ups passed on down.
4. **Departmental boundaries are flexible:** This flexibility results in cordial horizontal relationships across departments which are equally important as compared to vertical or chain of command relationships.

The type of organizational structure would depend upon the type of organization itself and its philosophy of operations. Basically, the structure can be mechanistic or organic in nature or a combination thereof. However, most organizational structures are still designed along mechanistic or classical lines.

Some of the organizational structures are explained as follows:

### 1. Line Organization

This 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 levels of workers. It clearly identifies authority, responsibility and accountability at each level. These relationships in the hierarchy connect the position and tasks of 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. The line personnel are directly involved in achieving the objectives of the company.

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 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 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 that is highly beneficial to the organization.

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

The line organization can be a pure line type or departmental line type. In the pure line type set-up, all similar activities are performed at any one level. Each group of activities is self-contained and is independent of other units and is able to perform the assigned duties without the assistance of others. In a departmental line type of organization, also known as functional structure, the respective workers

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and supervisors are grouped on a functional basis such as finance, production and marketing and so on.

## 2. Line and Staff Structure

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

- **General staff:** This group has a general background that is usually similar to executives and serves as assistants to top management. They are not specialists and generally have no authority or responsibility of their own. They may be known as special assistants, assistant managers or in a college setting as deputy chairpersons.
- **Specialized staff:** Unlike the general staff who generally assist only one line executive, the specialized staff provides expert staff advice and service to all employees on a company wide basis. This group has a specialized 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 specialized advice and assistance to management when needed. Some typical areas covered by advisory staff are legal, public relations and economic development.
  - (b) *Service capacity:* This group provides a service that is useful to the organization as a whole and not just to any specific division or function. An example would be the personnel department serving the enterprise 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. According to Saltonstaff, a staff member may serve as a coach, diagnostician, policy planner, coordinator, trainer, strategist and others.

The line and staff type of organization is widely used and is advantageous to the extent that the specialized advice improves the quality of decisions resulting in operational economics. Also, since line managers are generally occupied with their day-to-day current operations, they do not have the time or the background for future planning and policy formulation. Staff specialists are conceptually oriented

towards looking ahead and have the time to do strategic planning and analyse the possible effects of expected future events.

Its main disadvantages are the confusion and conflict that arises between line and staff, the high cost that is associated with hiring specialists and the tendency of staff personnel to build their own image and worth that is sometimes at the cost of undermining the authority and responsibility of line executives.

### **3. Functional Organization**

One of the disadvantages of the line organization is that the line executives lack specialization. Additionally, a line manager cannot be a specialist in all areas. In the line and staff type of organization, the staff specialist does not have the authority to enforce his recommendations. The functional organizational concept, originated with F. W. Taylor and it permits a specialist in a given area to enforce his directive within the clearly defined scope of his authority. A functional manager can make decisions and issue orders to the persons in divisions other than his own, with a right to enforce his advice. Some good examples of specialists who have been given functional authority in some organizations are in the areas of quality control, safety and labour relations.

The functional organization features separate hierarchies for each function creating a larger scale version of functional departments. Functional departmentalization is the basis for grouping together jobs that relate to a single organizational function or specialized skill such as marketing, finance, production and so on. The chain of command in each function leads to a functional head who in turn reports to the top manager.

The functional design enhances operational efficiency as well as improvement in the quality of the product because of specialists being involved in each functional area and also because resources are allocated by function rather than being duplicated or diffused throughout the organization.

One of the main disadvantages of the functional design is that it encourages narrow specialization rather than general management skills so that the functional managers are not well-prepared for top executive positions. Also, functional units may be so concerned with their own areas that they may be less responsive to overall organizational needs.

### **4. Divisional Organization**

The divisional or departmental organization involves grouping of people or activities with similar characteristics into a single department or unit. Also known as self-contained structures, these departments operate as if these were small organizations under a large organizational umbrella, meeting divisional goals as prescribed by organizational policies and plans. The decisions are generally decentralized so that the departments guide their own activities. This facilitates communication, coordination and control, thus contributing to the organizational success. Also,

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because the units are independent and semi-autonomous, it provides satisfaction to the managers that in turn improves efficiency and effectiveness.

This division and concentration of related activities into integrated units is categorized on the following basis:

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- **Departmentation by product:** In this case, the units are formed according to the type of product and it is more useful in multi-line corporations where product expansion and diversification, and manufacturing and marketing characteristics of the product are of primary concern. The general policies are decided upon by the top management within the philosophical guidelines of the organization. For example, General Motors has six divisions that are decentralized and autonomous. These are: Buick, Pontiac, Oldsmobile, Cadillac, Chevrolet and GMC Trucks. Each division is autonomous and each division 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 departmentation, the responsibility as well as the accountability is traceable, thus making the division heads sensitive to product needs and changing consumer tastes.

This type of organizational structure facilitates the measurement of managerial as well as operative results and the contribution of each product line to the organization's total profit can be evaluated.

The major disadvantage of this type of departmentalization is that it promotes fierce internal competition that may or may not be healthy and there may be lack of cooperation among different divisions, even though the central management retains the policy making and financial management authority.

- **Departmentation by customers:** This type of departmentation is used by those organizations that deal differently with different types of customers. Thus, the customers are the key to the way the activities are grouped. Many banks have priority services for customers who deposit a given amount of money with the bank for a given period of time. Similarly, business customers get better attention in the banks than other individuals. First-class passengers get better service by the airlines than the economy-class passengers. An organization may be divided into industrial product buyers and consumer product buyers, and so on.
- **Departmentation by area:** If an organization serves different geographical areas, the division may be based upon geographical basis. Such divisions are specially useful for large-scale enterprises that are geographically spread out such as banking, insurance, chain department stores or a product that is nationally distributed. For example, there may be a separate vice-president of marketing who is responsible for



promotion of the product in eastern region, in north-western region, in southern region and so on.

In these cases, the local population is served by the divisional personnel while the 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, culture, styles and social preferences. The one problem is the difficulty in communication that can delay important decisions and create problems with coordination of inter-related activities.

- **Departmentation by time:** Hospitals and other public utility companies such as telephone company that work around the clock are generally departmentalized on the basis of time shifts. For example, the telephone company may have a day shift, an evening shift and a night shift, and for each shift a different department may exist, even though they are all alike in terms of objectives.

The organizational structure on the basis of divisions of various types, as has been explained, has certain advantages. Since the decisions are made at the point of operations, they are fast thus making the divisions flexible to adopt to any changes that might occur. Also, it releases top management for more important policy decisions. The expansion is easier since any other facility can be added, if necessary. One of the major disadvantages of these divisions is the duplication of work, since each division will have its own staff and specialists. Also, since each division is responsible for its profits and losses, sometimes, divisional interests may take priority over the organizational goals.

### 5. Project Organization

These are temporary organizational structures formed for specific projects for a specific period of time and once the goal is achieved, these are dismantled. For example, the goal of an organization may be to develop a new automobile. For this project, the specialists from different functional departments will be drawn to work together. These functional departments are production, engineering, quality control, marketing research, etc. When the project is completed, these specialists go back to their respective duties. These specialists are basically selected on the basis of task related skills and technical expertise rather than decision-making experience or planning ability.

These structures are very useful in the following situation:

- The project is clearly defined in terms of objectives to be achieved and the target date for the completion of the project is set. An example would be the project of building a new airport.
- The project is separate and unique and not a part of the daily work routine of the organization.

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- There must be different types of activities that require skills and specialization and these must be coordinated to achieve the desired goal.
- The project must be temporary in nature and not extend into other related projects.

### 6. Matrix Organization

A matrix structure is, in a sense, a combination and interaction of project and functional structures and is suggested to overcome the problems associated with project and functional structures individually. The key features of a matrix structure are that the functional and project lines of authority are superimposed with each other and are shared by both functional and project managers.

The project managers are generally responsible for overall direction and integration of activities and resources related to the project. They are responsible for accomplishing work on schedule and within the prescribed budget. They are also responsible for integrating the efforts of all functional managers to accomplish the project and directing and evaluating project activity. The functional managers are concerned with the operational aspects of the project. The functional structure is primarily responsible for the following:

- Providing technical guidance for the project
- Providing functional staff that is highly skilled and specialized
- Completing the project within prescribed technical specifications

Greiner sees matrix organization, in which cross-functional teams are used, as a response to growing complexity associated with the organizational growth. These complexities, both internal (size, technology) as well as external (markets, competitors), create problems of information processing and communication that are best dealt by matrix type of organization.

Matrix organizational design is most useful when there is pressure for shared resources. For example, a company may need eight product groups, yet have the resources only to hire four marketing specialists. The matrix provides a convenient way for the eight groups to share the skills of the four specialists.

Each matrix contains three unique sets of role relationships: (1) the top manager or chief executive officer who is the head and balances the dual chains of command; (2) the managers of functional and project (or product) departments who share subordinates and (3) the specialists who report to both the respective functional manager and project manager.

An important aspect of the matrix structure is that each person working on the project has two supervisors—the project manager and the functional manager.

Since the matrix structure integrates the efforts of functional and project authority, the vertical and horizontal lines of authority are combined and the authority flows both down and across. The vertical pattern is brought about by the typical

line structure where the authority flows down from superior to subordinates. The project authority flows across because the authority is really assigned for coordinating efforts, that is a horizontal function, rather than giving orders and directions that is a vertical function.

Stephen P. Robbins has emphasized that most schools of businesses in colleges and universities are organized along the matrix structure, where they superimpose product or programme structures such as undergraduate programmes, graduate programme, executive development programme and so forth, over functional departments of management, marketing, accounting, finance and so on. Directors of program groups utilize faculty from the functional departments in order to achieve their goals

It can be seen in the above illustration, that the directors of various programmes staff their courses from the faculty of the various departments and the same faculty serves various programmes. The matrix provides clear lines of responsibility for each program. For example, the responsibility for the success or failure of executive development programme lies directly with the programme director. The matrix structure provides for coordination of faculty among the various course offerings of the various programmes. Without the matrix, such coordination would be very difficult.

### **Advantages of matrix organization**

By its very nature, a matrix type of organization is more democratic, interactive and participative with emphasis on interdependence of departments and increased collaboration and cooperation among a wider range of people. The structure has a number of advantages. Some of the strengths of matrix structure are as follows:

- **Increased coordination and control:** The project manager is in a position to coordinate the many inter-related aspects of a particular project, since there is both vertical as well as horizontal communication. This coordination leads to greater and more effective control over operations.
- **Full use of all available resources:** Since the matrix organization, at any given time, is handling a number of projects, the specialized staff and their expertise can be utilized through many projects and no duplication of personnel is necessary. If a specialist is no longer needed on a given project, he can always be utilized for another project.
- **Response to dynamic environment:** Because of functional interdependence and quicker feedback of information, the organization responds quickly to a changing and uncertain environment so that the decisions can be made more rapidly. This reduces the adverse effects of any sudden changes in any factors affecting the organization.
- **Excellence in inter-disciplinary specialization:** Since the expertise of specialists is fully utilized in inter-disciplinary areas and the organization itself demands high-quality solutions to complex problems, these opportunities

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provide a sound basis for expanding the technical excellence into many inter-disciplinary activities.

- **Top management has more time for strategic planning and policy formulation:** Since most of the authority is delegated to project managers, it leaves the central management comparatively free to get involved in long-range planning rather than operational activities.
- **Improving motivation and personal development:** It is well-known that people working together on a project with a team spirit operate in a more participative manner. This improves coordination and harmony, which in turn increases commitment to the organizational goals due to high motivation. Also, due to the participative nature of decision-making process, the team members are constantly accepting challenges that broaden their outlook and provide grounds for personal as well as professional development.

### Disadvantages and weaknesses of matrix organization

The matrix structure suffers from some of the following weaknesses:

- **Violation of unity of command principle:** Since there is more than one supervisor for each worker, it causes confusion and conflict and reduces effective control.
- **Administrative costs:** There is continuous communication, both vertically and horizontally, and this increases paper work and thus costs. Unlike the simpler authority structure, there are more meetings and more discussions at the cost of actual productivity, thus further increasing the administrative costs.
- **Pressure of jobs:** The individuals have too many demands placed upon them, for in addition to their regular responsibilities, they are involved in additional meetings and paper work that may put additional demands upon them. Also, due to excessive inter-dependence and inter communications, there is a role conflict as well as role ambiguity. Role conflict is difficult to avoid since all persons are specialists and they have to report to more than one superior and these different superiors may have different and possibly conflicting demands and expectations. Role ambiguity exists because expectations are unclear. The decisions made by junior personnel can be overruled by superiors so that the authority and accountability remains unclear. These difficulties can have an adverse effect on motivation.
- **Balance:** It is difficult to achieve a balance between the project's technical and administrative aspects. It is difficult to get highly specialized technical engineers and scientists to accept the administrative cost constraints. Also, a balance has to be achieved between the authority of project heads and functional managers and their respective responsibilities.

Some of these difficulties in a matrix organization can be avoided and the structure can be fully utilized by carefully defining the individual roles of functional and project heads and setting up training programmes in building team spirit and adoption of appropriate conflict resolution practices.

### **Check Your Progress**

1. Why is the organizing function of management very significant?
2. What are the key elements of organizing?
3. What do you understand by the scalar principle of organizing?
4. What is the legal authority in an organization based upon?
5. How does the span of control influence a manager's effectiveness?

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### **4.3 DEPARTMENTATION**

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 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 practiced not only for division of labour but also to improve control and communications.

Departmentation fits in 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 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, and so on. The type and the number of functions would depend upon the type of organization. For example, a service organization will have some of the functions different than a manufacturing organization. The chain of command in each function leads to a functional head who in turn reports to the top manager.

The functional design enhances operational efficiency as well as improvement in the quality of the product because of specialists being involved in each functional area and also because resources are allocated by function rather than being

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duplicated or diffused throughout the organization. Another advantage of functional design is that it facilitates ease in communication and coordination within the departments, since the activities are all related, in one way or another, to the same specialized area.

One of the main disadvantages of the functional design is that it encourages narrow specialization rather than general management skills so that the functional managers are not well prepared for top executive positions. Also, functional units may be so concerned with their own areas that they may be less responsive to overall organizational needs. Another disadvantage of functional design is that coordination across functions is more difficult to achieve and it may seriously delay responses to the dynamics of environment affecting the entire organization because such responses must go through the chain of command.

### **Divisional Structure**

An alternative to the functional structure is the divisional structure that 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:

- (i) **Product structure:** In this type of structure, the units are formed according to the type of product and are more useful in multi-line corporations where product expansion and diversification, manufacturing and marketing characteristics of the production are of primary concern. For example, Pepsi 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 the 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.

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.

- (ii) **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 individuals. First, class passengers get better service from the airlines than economy-class passengers. An organization may be divided into industrial product buyers and consumer product buyers, and so on.
- (iii) **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, and so on. 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 the Eastern Region, in the North-Western Region, in the 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 the 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, culture, 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.

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**Check Your Progress**

6. What is the functional structure also known as?
7. What does divisional structure involve?

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**4.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS**

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1. The organizing function is extremely important because once the objectives of the organization and the plans have been established, it is the primary mechanism with which managers activate such plans.
2. There are four key elements of organizing, namely social entities, goal-directed efforts, deliberately-structured activity systems and permeable boundary.
3. 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.
4. Legal authority is based upon the rank of the person in the organization and such authority may be given by law or by social norms, rules and regulations protected by law.
5. The span of control has a crucial influence on a manager's effectiveness. Too wide a span would put heavy burden on management in effective guidance and control and too narrow a span would mean underutilization of managerial capacity and ability.
6. The functional design is also known as U-form organization (U stands for unity) and it groups positions into departments according to their main functional areas.
7. Divisional structure involves grouping of people or activities with similar characteristics into a single department or unit.

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**4.5 SUMMARY**

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- The organizing function is extremely important, because once the objectives of the organization and the plans have been established, it is the primary mechanism with which managers activate such plans.
- 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.



- There are some established guidelines or principles that are common to all organizations that are structured in a classical form.
- Once the organizational goals and objectives have been established and activities and operations have been assigned to individuals and groups, management must form a structure so that processes and activities can be coordinated and efforts directed through such a structure towards achieving the organizational goals.
- Authority gives the management the power to enforce obedience. It is the power to give orders and make sure that these orders are obeyed.
- The span of control is defined as the number of subordinates under one manager. In a wider span of control, a manager has many subordinates who report to him.
- The structure or type of the organization involves arrangement of activities and assignment of personnel to these activities in order to achieve the organizational goals in an efficient manner.
- Basically, the structure can be mechanistic or organic in nature or a combination thereof. However, most organizational structures are still designed along mechanistic or classical lines.
- 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.

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### 4.6 KEY WORDS

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- **Organizational structure:** It refers to the way individuals and groups are arranged in an organization with respect to the tasks they perform.
- **Organizational design:** It is the process of coordinating structural elements in the most effective manner.
- **Span of management:** It refers to the number of subordinates a manager can effectively manage.
- **Narrow span:** It refers to the existence of too many levels in an organization.

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### 4.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. List the features of an efficient organization.
2. Write down the benefits of a good organization.

3. Mention the guidelines for effective organization.
4. Write a short note on legal authority.

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### Long-Answer Questions

1. Discuss the concept of organizing. What is the importance of organizing?
2. Explain the steps of the organizing process.
3. Describe the different forms of organizational structure.

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## 4.8 FURTHER READINGS

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**BLOCK - II**  
**CONCEPT OF STAFFING AND LEADERSHIP**

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**UNIT 5    STAFFING**

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**Structure**

- 5.0 Introduction
- 5.1 Objectives
- 5.2 Delegation and Responsibility
  - 5.2.1 Centralization and Decentralization of Authority
- 5.3 Formal and Informal Organization
- 5.4 Organization Staffing: Concept, Nature and Importance
- 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

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**5.0    INTRODUCTION**

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You learnt in the previous unit that there are certain essential elements to the organization. These include authority, span of control, responsibility, delegation and chain of command. In the previous unit, we discussed span of control and authority. Here we will discuss delegation, responsibility and decentralization. The unit will also discuss staffing. Staffing is the function of hiring and retaining a suitable workforce for the enterprise both at managerial as well as non-managerial levels. It involves the process of recruiting, training, developing, compensating and evaluating employees, and maintaining this workforce with proper incentives and motivations. Since the human element is the most vital factor in the process of management, it is important to recruit the right personnel. This function is even more critically important since people differ in their intelligence, knowledge, skills, experience, physical condition, age and attitude, and this complicates the function. Hence, management must understand, in addition to the technical and operational competence, the sociological and psychological structure of the workforce.

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**5.1    OBJECTIVES**

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

- Discuss the principles and process of delegation
- Examine the staffing function of management
- Explain centralization and decentralization in organizations

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## 5.2 DELEGATION AND RESPONSIBILITY

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Let us begin by discussing delegation in organizations.

#### Delegation

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.

### Significance of Delegation

When used properly, delegation of authority to subordinates offers several important advantages. Some of these are as follows:

1. **It results in quick decisions.** Since, the power to make decisions is delegated, decisions can be made right away at or near the centre of operations as soon as a deviation occurs or the situation demands. This would save a lot of time in referring the matter to higher-ups, briefing them about the situation and waiting for their decisions.
2. **It gives executives more time for strategic planning and policy making.** Since, the central management is not involved in day-to-day decisions, it can concentrate its efforts on meeting broad and unique challenges and opportunities. Also, since the higher level management may not have the necessary technical skills to make lower level technical decisions, such decisions are more productive if taken at the lower level. The higher level management has better skills in strategic planning and hence they will have more time on their hands to utilize their skills more effectively.
3. **It is a motivational factor.** Subordinates usually respond to delegated authority with favourable attitude. They become more responsible and more dedicated to their work and they feel proud of being given such authority and responsibility. This in turn boosts their morale. On the other hand, if the lower level managers do not have the authority to act and make decisions even when they are competent to do so, this might give them a feeling of insecurity and incompetence.
4. **It can be a training ground for executive ability.** Subordinates, when given control over the problems they face, are able to analyse the situation and make decisions accordingly. This continuous involvement prepares them for problem solving process when they reach a higher executive level. This process will also screen out those from the executive level who have proved to be less successful in handling problems at the lower level.

### Process of Delegation

When managers delegate, they set a four-step sequence of events in motion. These steps include the following:

1. **Assignment of tasks:** The first step in this process is to determine clearly what the subordinates are supposed to do. Then the capabilities of subordinates should be considered to match them with the assigned duties. The tasks should be distributed in such a manner that the subordinates are

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not unnecessarily overburdened and that each one is capable of efficiently completing the assigned task. The total task can be divided into identifiable parts so that the manager can handle some parts himself and other parts can be given to skilled subordinates. This way the coordination and supervision would become easier.

- 2. Delegation of decision-making authority:** The second step is to give authority to subordinates to make and implement decisions regarding procurement of resources and supervision of activities that are relevant to the duties assigned to them. This authority must be clearly stated, and if possible in writing, so that there is no ambiguity regarding making necessary decisions. The authority should also be related to tasks so that if the tasks change, so would the authority. Any matters or decisions that do not fall within the domain of delegated authority must be referred to the superiors.
- 3. Creation of obligation:** The third step is the creation of obligation on the part of the subordinates to perform their duties satisfactorily. The person assigned the task is morally responsible to do his best since he has willingly accepted these tasks. Obligation is a personal concern for the task. Even if the subordinate gets part of the task done through other people, he must accept responsibility for timely completion of the task as well as the quality of the output.
- 4. Creation of accountability:** Being answerable to someone for your actions creates accountability with an obligation to accept the consequences, good or bad. According to Newman, Summer and Warren, by accepting an assignment, a subordinate in effect gives his superiors a promise to do his best in carrying out his duties. Having taken a job, he is morally bound to complete it. He can be held accountable for results.

### Responsibility

Authority and responsibility go side by side in management. When authority is delegated then some responsibility for getting the assigned task is also fixed. One can delegate authority but not responsibility. In essence, responsibility is the obligation of a subordinate to carry out the duties assigned to him or her. Some of the features of responsibility in management are as follows:

- (i) It derives from a superior-subordinate relationship.
- (ii) It always flows upward from juniors to seniors.
- (iii) It arises from duty assigned.
- (iv) It cannot be delegated.
- (v) It is the obligation to complete the job as per instructions given. Responsibility may be continuing obligation or it may be discharged by accomplishing single task. No person can shift his responsibility by delegating his authority to others. Responsibility is thus absolute.

### 5.2.1 Centralization and Decentralization of Authority

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.

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### Factors Determining the Need for Centralization and Decentralization

The following factors determine the need of centralization and decentralization in a business organization:

1. **Mission, goals and objectives of the organization:** Certain types of organizations such as universities and hospitals have a democratic power-sharing structure and hence a decentralized form. On the other hand, the goals and purposes of small businesses such as a restaurant and small-scale industries would require a more centralised structure.
2. **Size and complexity of the organization:** Large organizations with diverse product line and conglomerates with companies involved in different fields would find decentralization to be more effective due to limitations in managerial expertise as well as increased executive workload in centralised large organizations.
3. **Locations of target market:** If the customers of an organization are located far apart geographically, then decentralization would be more appropriate since in such a case, the appropriate management resources would be placed close to the customers, allowing quicker decisions and faster customer service.
4. **Competency of top level management:** If the top-level managers are more knowledgeable and highly experienced as compared to lower-level

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subordinates, then the tendency of the organizations is towards consolidation of decision-making power at the central management level.

- 5. Competency of subordinates:** The prerequisite of effective decentralization is the availability of trained, experienced and knowledgeable subordinates who can be entrusted to evaluate the situation objectively and make necessary decisions. If subordinates are not sufficiently trained in this area, then decentralization is not advisable.
- 6. Desirability of creativity in the organization:** Donald Harper suggests decentralization if creativity within the organization is desirable and necessary. It gives the subordinates freedom to be innovative and find better ways of doing things. This freedom is a highly motivational factor, which encourages creativity.
- 7. Time frame of decisions:** The time frame for making decisions is different in different situations. For example, an airline pilot has to make decisions in a much shorter time frame than a committee establishing long-range planning policies. Wherever on- the-spot decisions have to be made, the authority to make them must be delegated, thus encouraging decentralization. It is understood that such subordinates are properly trained to make such decisions before the authority is delegated. In addition, the significance of the decisions is equally an important consideration. Major policy decisions may have to be referred to the central management even if the time frame is very short. For example, allowing a hostile airplane for emergency landing may or may not be within the authority of the air controllers.
- 8. Adequacy of communication system:** If the communication system provides for speedy and accurate transfer of information on which decisions are based then centralization could be more effective. The introduction of fast computers, telecommunication systems and data processing systems have created a feasibility of making fast decisions and hence the argument for centralization.
- 9. Types of tasks:** Certain tasks require so much coordination and precise integration of activities that it is more effective if such coordination is done from the central point, such as in production control or central purchasing. Other tasks tend to be more independent, such as sales and these can be decentralized.
- 10. Existence of standing plans:** If a description of clear-cut goals and objectives and precise structured procedures and plans for solving routine problems and making certain situational and operational decisions exists, then the outcomes of the subordinate's decisions can be easily predicted and hence decentralization is more effective.
- 11. External factors:** Certain policies and activities that deal with the external environment must remain the prerogative of the central management. These policies relate to dealing with labour unions, community officials, lobbying



with the government and legislature, matters relating to national defence contracts and so on. These factors necessitate centralization.

*Staffing*

### **Advantages of Centralization**

The following advantages are claimed for centralization:

- 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.
- 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.
- 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.
- Centralization results in the optimal utilisation of human and physical resources. One of the disadvantages of divisionalization 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.
- The central management is better equipped to handle any emergencies that might affect all the units of the organization. This emergency may be related 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.
- 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.
- Centralization can be highly motivating and morale boosting for executives. It is better to be an important executive of the whole organization than only

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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.

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### Advantages of Decentralization

The following advantages are claimed for decentralization:

- 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, policy making, control and so on.
- 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.
- 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.
- 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.
- 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. In 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.

#### Check Your Progress

1. Why do superiors delegate authority?
2. Define responsibility.
3. What is centralization?

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### 5.3 FORMAL AND INFORMAL ORGANIZATION

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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.

The informal work groups, constituting the informal organization as a whole, comprise a loosely structured organization of interpersonal relationships, which affect decisions within the formal organization, but are either omitted from the formal scheme or are not consistent with it. These interpersonal relationships create a bond of friendship among the members of such an informal organization and these bonds are very strong so that there is a sense of belonging and togetherness. This togetherness can have a powerful influence on productivity and job satisfaction. The members help and motivate each other. For example, during a busy period, one employee may turn to another for help instead of going through the supervisor. Similarly, an employee in the sales department may ask another employee in the production department, who also belongs to the informal organization, for information about product availability and receive this information faster than through the formal reporting system.

The informal organization is a powerful instrument in all organizations and sometimes it can mean the difference between success and failure of the organization. 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 supervisors. A cooperative group makes the supervision easier, thus lengthening the effective span of management. Informal groups also make sure that the basic principles of the formal organization are not violated. For example, if a manager misuses his authority and promotes an unqualified person, the informal group may use its influence in making sure that this does not happen. The informal group also serves as an additional channel of communication to the management about conditions at work, which may not be available through official channels.

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### 5.4 ORGANIZATION STAFFING: CONCEPT, NATURE AND IMPORTANCE

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A number of factors contribute towards the success of an enterprise. These factors include capital, equipment, and manpower. While these factors are important, the

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human factor is the most significant one, since 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. Also if the people who are in charge of these resources are not sufficiently qualified, then the utilization of these resources would not be optimum. Accordingly, the staffing function of management is a very significant one, especially in light of continuous and dynamic developments in the field of technology, increase in the size of organizations due to expansion, acquisitions, and mergers and due to changes in the social structure which makes the group behaviour of the workers more complicated.

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. Briefly staffing is important because of the following points:

- Maximum and efficient utilization of resources
- Reduces cost of production
- For job satisfaction
- For meeting present and future needs of employee
- For maintaining co-ordination among the employees

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.'

### **Characteristics of a sound personnel policy programme**

1. The policy statement should be clear and easily understood so that what it proposes to achieve is evident.
2. It should be formulated after careful consideration, discussion and review and preserved in writing in order to provide a definitive meaning to policies and procedures.
3. It should be reasonably stable, continuously monitored and periodically reviewed and revised so as to adjust to the changing social, legal and technical environment and the changing constitution of the work force.
4. It must be consistent with the missions and general goals of the organization without violating the individual goals and objectives so that due regard is given to all concerned parties—the employers, the employees, the government and the community.

5. The policies should have the full support of all employees and be preferably evolved after full consultations with the trade unions so that the interests of the union members are inherently protected.
6. It should provide for a two-way communication so that the employees are informed of any developments in the organization and the management gets the necessary feedback.
7. It must make a measurable impact on the process of recruitment, retention and retirement which can be evaluated and qualified.

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### Check Your Progress

4. What is a formal organization?
5. List some of the factors that contribute towards the success of an enterprise.

## 5.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Superiors delegate authority to subordinates to facilitate the accomplishment of the assigned work.
2. Responsibility is the obligation of a subordinate to carry out the duties assigned to him or her.
3. 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.
4. 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.
5. A number of factors contribute towards the success of an enterprise. These factors include capital, equipment, and manpower.

## 5.6 SUMMARY

- 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.
- Authority and responsibility go side by side in management. When authority is delegated then some responsibility for getting the assigned task is also fixed.
- A pure form of centralization is not practical, except in small companies, and pure form of decentralization almost never exists.

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- As organizations grow bigger by expansion, mergers or acquisitions, decentralization becomes both necessary as well as practical.
- 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.
- The informal work groups, constituting the informal organization as a whole, comprise a loosely structured organization of interpersonal relationships, which affect decisions within the formal organization, but are either omitted from the formal scheme or are not consistent with it.
- 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.

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### 5.7 KEY WORDS

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- **Centralization:** It means the concentration of control of an activity or organization under a single authority.
- **Staffing:** It is the managerial function of recruitment, selection, training, developing, promotion and compensation of personnel.
- **Formal organization:** It is an *organization* with a fixed set of rules of *intra-organization* procedures and structures.

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### 5.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. What are the principles of delegation?
2. What is responsibility in management? Discuss its features.
3. Write a shortnote on the disadvantages of decentralization.
4. Differentiate between formal and informal organizations.

#### Long-Answer Questions

1. Discuss the process of delegation.
2. What is centralization? Discuss the factors that determine the need for centralization or decentralization.
3. Explain the staffing function in organizations. Discuss its importance.

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## 5.9 FURTHER READINGS

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## UNIT 6 MOTIVATING AND LEADING

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### NOTES

#### Structure

- 6.0 Introduction
- 6.1 Objectives
- 6.2 Nature and Importance of Motivation
- 6.3 Types of Motivation
- 6.4 Theories of Motivation
- 6.5 Answers to Check Your Progress Questions
- 6.6 Summary
- 6.7 Key Words
- 6.8 Self Assessment Questions and Exercises
- 6.9 Further Readings

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### 6.0 INTRODUCTION

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This unit discusses motivation. The force of motivation is a dynamic force setting a person into motion or action. The word motivation is derived from motive that is defined as an active form of desire, craving or need that must be satisfied. All motives are directed towards goals. New needs and desires affect or change your behaviour that then becomes goal oriented. For example, if you ordinarily do not want to work overtime, it is likely that at a particular time, you may need more money (desire) so you may change your behaviour, work overtime (goal oriented behaviour) and satisfy your needs.

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### 6.1 OBJECTIVES

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

- Discuss the nature and importance of motivation
- Describe the types of motivation
- Examine various motivation theories

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### 6.2 NATURE AND IMPORTANCE OF MOTIVATION

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Basically, motivation encompasses the internal and external factors that stimulate desire and energy in people to be continually interested and committed to a job, role or subject, or to make an effort to attain a goal. All motives are directed towards goals and the needs and desires affect or change your behaviour which becomes goal oriented.



Performance results with the interaction of three types of resources, which are physical, financial and human resources. However, physical and financial resources themselves do not result in productivity. It happens only when the human element is introduced. The human element, even though most important, is most complex and unpredictable, over which management has very limited control. Understanding human behaviour and affecting it positively can increase productivity and improve performance. The level of performance of an employee is a function of his ability and his motivation. The former determines what he 'can' do and the latter determines what he 'will' do. The ability can always be judged and measured and depends upon background, skills and training. Motivation, on the other hand, is the force within. Wherever, there is a strong motivation, the employee's output increases. A weak motivation has the opposite effect. Hence management must understand what motivates people towards better performance and take steps to create an environment which induces positive and strong motivation.

According to the *Encyclopaedia of Management*, motivation is defined as, 'The degree of readiness of an organization to pursue some designated goal and implies the determination of the nature and locus of forces, inducing the degree of readiness'.

While the first management task is to set the organizational goal, the major task is to move the organization most effectively to reach that goal. This can be done by motivation, the purpose of which is to create conceptual as well as a physical work environment in which the people are willing to work with zeal, initiative, interest and enthusiasm with a sense of responsibility, loyalty and discipline, in a team spirit and in a cohesive manner.

Motivation is a combination of many factors which affect behaviour modification. However, two factors stand out. First is an understanding of the fundamental drives, urges, needs and desires of the peoples which can be manipulated and stimulated. Second is a sense of communication and methodology that would provide stimulus to these urges. Some of the methods used for this purpose may be the provision of financial incentives, cordial working environment, challenging work and responsibility, personal accomplishment, recognition for such accomplishment and an opportunity for growth and advancement.

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### 6.3 TYPES OF MOTIVATION

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Information providers of motivation experts in the domain of organizational behaviour have varying viewpoints concerning whether employees get motivated by external environment features such as incentives and intimidations, or whether motivation is self-created with the absence of external features. It is clearly understood that motivation does not occur evenly in all employees under similar group of external factors. A few of these sources of motivation are as follows:

- **Positive motivation:** This includes accurate identification of the efforts of employees and the admiration of the involvement of the employee towards

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organizational goal accomplishment. Such motivations enhance performance standards, result in healthy team spirit and pride, a feeling of cooperation and a sense of belonging and pride. Some of the positive motivating factors are appreciation and credit for job performed, a true concern about the well-being of subordinates, allocation of power and responsibility towards subordinates and involvement of subordinates in the process of decision making.

- **Negative or fear motivation:** Motivation that is brought about forcefully, with use of authority and warnings, is negative motivation. The dread of being punished or unpleasant consequences influences behavioural adjustments. A few instances of negative motivation are the threat of failing in an examination and fear of being sacked or being demoted. The dread of failing in an examination motivates a number of students to put in more hard work and emerge successful in the examinations. Likewise, the threat of being sacked looms large in an employee's mind and keeps him aligned with the rules and regulations of the organization besides ensuring a fair job. The threat of punishment or actually punishing someone has proved to be successful in controlling one's misconduct and has been a major contributor of positive performance in several circumstances. Although it is an essential requirement in a number of other conditions such as disciplining a kid or controlling an uprising, it is not advised or regarded as a practical option in the present business and industrial scenario. This is grounded upon the changing trends in the personnel which consist of higher stages of employee training and education and far-reaching unionization of the workers.
- **Extrinsic motivation:** This type of motivation is brought about by exterior features that are chiefly monetary in nature, which could be in the form of incentives and rewards. These incentives and rewards have been a matter of argument as to whether they are truly effective in motivating employees or whether they only get them to work and perform. These modes of motivation comprise of more salary, additional benefits like pension plans, stock options, revenue-sharing plans, medical and health insurance, maternity leave, paid holiday, etc.
- **Intrinsic motivation:** This root-cause for this kind of motivation is a feeling of achievement and accomplishment and is related to the state of self-realization wherein the feeling of achieving something meaningful further motivates the worker such that this motivation is self-produced and is free of monetary gains. For example, many retired doctors work among slum dwellers without charging them any money, as it gives them a feeling of achievement and contentment. Mother Teresa's vocation in the slums of Kolkata (India) motivated many people to join her team as soon as they learnt about her besides motivating those people who worked with her. Likewise, workers of Peace Corps work in unfavourable conditions at a meagre pay. Some of the factors of intrinsic motivation are appreciations,

identification, accountability, respect, authority, position, difficult tasks, and decision-making responsibility.

Information providers of motivation experts in the domain of organizational behaviour have varying viewpoints concerning whether employees get motivated by external environment features such as incentives and intimidations, or whether motivation is self-created with the absence of external features. It is clearly understood that motivation does not occur evenly in all employees under similar group of external factors. A few of these sources of motivation are as follows:

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- **Positive motivation:** This includes accurate identification of the efforts of employees and the admiration of the involvement of the employee towards organizational goal accomplishment. Such motivations enhance performance standards, result in healthy team spirit and pride, a feeling of cooperation and a sense of belonging and pride. Some of the positive motivating factors are appreciation and credit for job performed, a true concern about the well-being of subordinates, allocation of power and responsibility towards subordinates and involvement of subordinates in the process of decision making.
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### Check Your Progress

1. What is positive motivation?
2. What is the cause of intrinsic motivation?

## 6.4 THEORIES OF MOTIVATION

Motivational theory has played a dominant role in the emerging field of organizational behaviour. Considerable effort has been made and is being made to identify specific variables which would be a direct source of motivation towards goal achievement. There have been a number of studies made, theories advanced and models built on understanding the nature and relationship of different variables that cause a certain behaviour and the variables that modify a given behaviour. We will have a brief look at a few of these models.

### Maslow's Needs Hierarchy Model

Essentially, there are two kinds of theories that are concerned 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 try to recognize the varying factors which result in motivation and their association with one another. These theories are described in greater detail.

### The content theories of work motivation

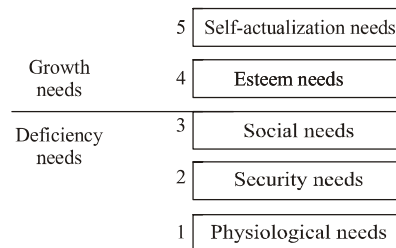
The content theories have been developed to explain the nature of motivation in terms of types of need that people experience. They attempt to focus on factors within a person that initiate and direct a certain type of behaviour or check certain other types of behaviour. The basic idea underlying such 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.

### Maslow's needs hierarchy

The most commonly used theory of motivation in organizations is Maslow's 'needs hierarchy theory'. Abraham Maslow recommended that individuals possess a complicated group of extraordinarily strong needs and the conduct of an individual at a specific time is decided by his strongest need. He created his prototype of human motivation in 1943, on the basis of his own proven experience and devised his theory of hierarchical needs by asking the same question, 'what is it that makes people behave the way they do'. He then listed out the answers and formed a pattern. His theory is grounded upon two assumptions. First, human beings have several needs of varying nature that range from the basic biological needs at the lower level, which is the level of existence or survival to needs that are psychological at the higher limit which is the level of growth. Second, these needs take place in a hierarchical order so that the needs at the lower level are met before needs at the higher level arise or get converted into motivators. This hierarchical needs model describes human conduct in a more forceful and practical fashion and is chiefly grounded on the concept that an individual's internal condition play the main role in motivation rather than the atmospheric situations.

Maslow proposes five basic requirements or needs set in consecutive levels. These constantly changing needs lead to changes in aims and functions. These five needs are arranged as depicted. The first three levels of needs at the base, namely, the 'deficiency' needs must be fulfilled to ascertain an individual's very survival and safety and ensure that he is comfortable. The top two groups of needs have been coined as 'growth' needs as these needs are concerned with individual growth, development and an awareness of one's potential (see Figure 6.1).



**Fig. 6.1** Maslow's Needs Hierarchy

These needs are described in detail as follows:

- (i) **Physiological needs:** These needs make the base of the hierarchical structure and tend to possess the maximum power with regard to motivation. These needs are chiefly those that result from physiological or biological worry. They are present to uphold life itself and comprise of the basic needs of food, water, shelter and sex.

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**(ii) Security and safety needs:** Once the physiological needs are satisfied, the need for safety and security gain predominance. These are the needs for self-sustenance as compared to the physiological needs that are essential for existence. These needs comprise of the needs for safety, constancy, independence from fretfulness and a systematized and organized environment. These needs for safety and security are actually reserves against withdrawal of gratification of physiological needs in the future. It also includes a feeling of security against the fear and peril of losing a job in the future.

**(iii) Love and social needs:** Once the needs of the body and security are gratified, a feeling of belonging and reception gains importance in motivating behaviour. These needs comprise of the needs for love, companionship, affection and social relations. We seek an atmosphere where we are comprehended, admired and desired. This is one reason for ‘polarization’ wherein people from like backgrounds and values have a propensity towards grouping together.

**(iv) Esteem needs:** The need for respect is to achieve the recognition from others that would bring about a sense of self-worth and self-confidence in the individual. It is a pressing desire for accomplishment, prestige, status and authority. Self-respect is the inner identification. Commanding respect from others is external recognition and an admiration of one’s distinctiveness as well as his involvement.

- Offering opportunities for workers to intermingle socially with each other through coffee breaks, lunch amenities and entertainment activities, such as organizing sports programmes, company picnics and other social gatherings
- Creating team spirit by maintaining informal work teams wherever feasible with friendly and encouraging supervision
- Organizing periodic meetings with all subordinates to talk about matters concerning personal accomplishments and contributions as well as the latest developments in the organization

The fourth-level needs of self-esteem include a feeling of contentment and achievement and recognition for such achievement. Management can take the following steps to fulfil these needs:

- Plan out more demanding tasks and provide positive and encouraging feedback on the performance of employees
- Acknowledge and encourage the performance and involvement of subordinates and assign additional authorities to them
- Make subordinates to participate in setting goals and in the decision-making process
- Provide some of the signs for status and respect, such as executive level job title, a personal secretary, benefit of parking, promotion, company car, and articles about accomplishments in the organization’s newsletter

(v) **Self-actualization needs:** This final need is the need to evolve completely and to be aware of one's competencies and potentialities to the maximum extent possible, whatever these competencies and potentialities may be. This is the highest level of need in Maslow's hierarchy and is stimulated as a motivator when all the other needs have been convincingly satisfied. It is at this level that an individual looks for competitive job assignments and opportunities for individual growth and progress. This need is for self-analysis and is oriented inwards. A self-actualized individual is innovative, self-sufficient, satisfied, unprompted, with an excellent perception of facts. He is continuously pushing himself to realize his complete potential. Maslow's model is a common model in which all needs interrelate with one another to a certain extent. Needs are not essentially vertical, nor is the classification of needs so stiff. The dominance of needs varies with immediate necessities and is constantly shifting. For instance, a self-actualized individual may shift his major concerns to community needs and needs for love, instead of focusing on esteem and position, in case the sudden loss of a loved one has created a vacuum.

The fifth and top-level needs of self-actualization demand development and innovation and the steps that management can take to fulfil these needs are as follows:

- Employees should be rendered an opportunity to outline their own work.
- Employees should be allowed to express their views and opinions freely. This will further open the channels of communications and encourage the employees to participate.
- Promote and enhance inventiveness among workers. Inventiveness is coupled with freedom of expression and freedom of movement.

Maslow felt that from the viewpoint of organizational behaviour, the management should endeavour to develop an organizational hierarchy. Research has proved that managers at the top level of the hierarchy are better able to fulfil their higher level needs than managers at the lower level who have more regular jobs. It is quite possible that blue collar employees who enjoy negligible freedom over job functions may not even feel the higher level need.

### **McGregor's Participation Model**

Douglas McGregor (1906–64) was a professor of industrial management at Massachusetts Institute of Technology (MIT) for the 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

## **NOTES**

## NOTES

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 shirk work and evade it whenever feasible.
2. These people need to be directed, governed and be given punishment threats in order to move them to do their job 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 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.

### **Herzberg's Model**

Frederick Herzberg and company evolved the two-factor theory in the late 1950s and early 1960s. Herzberg and his associates performed profound and detailed interviews of more than 200 engineers and accountants in Pittsburgh as an element of their research on job satisfaction.

The researchers believed that a person's association with his work is a basic one and that his approach towards work would decide his behaviour in the organization. The respondents were asked to give a detailed explanation about the kind of environment which would promote remarkably good feelings about their work, and the kind of environment in which they felt otherwise. It seems normal to believe that workers who have job satisfaction will be more committed to their work in comparison to those who do not have job satisfaction. In case the logic appears to be rational and justified, then it would be helpful to segregate those circumstances and aspects that ensure job satisfaction from those that do not. The following two were the fundamental questions that were asked in the course of the survey:

- (i) What do you like about your job?
- (ii) What do you dislike about your job?

On the basis of the responses it was decided that certain characteristics or features have a tendency to be consistently associated with job satisfaction while there are other features that are consistently associated with job dissatisfaction.

Herzberg named the factors that are related to job dissatisfaction as maintenance or hygiene factors that are extrinsic in nature, and factors related to job satisfaction as motivational factors that are intrinsic in nature.

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These factors are described in detail as follows:

**Motivational factors:** These factors are associated with the nature of work (job content) and are inherent to the job itself. These factors exercise a positive influence on confidence, contentment, competency and higher productivity. Some of these factors are described below:

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- **The work itself:** Employees must love what they are doing and enjoy their jobs to be motivated. Their commitment towards goal achievement grows and they do not feel bad working till late hours in order to accomplish the goal. They have high morale as is proved by reduction in absenteeism, sluggishness and delays.
- **Acknowledgement:** Correct acknowledgement of an employee's involvement by the management proves to be a great morale booster. It makes the workers feel worthy and enhances their self-esteem. It is natural for anybody to feel glad when he's praised. Therefore, this kind of acknowledgement proves to be extremely motivating.
- **Achievement:** Accomplishment of an aim leads to an immense feeling of achievement. The aim should be challenging, require initiative and innovativeness. A worker of assembly line hardly experiences a feeling of achievement after finishing his regular job. Opportunities that exist should be relevant for achievement, otherwise employees would become sensitive to the environments and start to find flaws in it.
- **Responsibility:** It is an employee's commitment to perform the allocated duties in a satisfactory manner. The higher the level of these duties more will be the feeling of responsibility of the employee and more would be his motivation. It feels good to know that you are regarded as a person of high principles and acumen to be given higher responsibilities. It is a motivational factor that fosters growth and development.
- **Growth and advancement:** All these factors are interconnected and are positively associated with motivation. Promotions in job, further responsibility, involvement in vital decision making, and supervisory benefits are all indications of growth and development and enhance the loyalty and commitment of employees. Herzberg's two-factor model is coupled with Maslow's basic model wherein Maslow enables one to recognize the needs and Herzberg provides us with guidelines and incentives that tend to fulfil these needs. Also, the hygiene factors in Herzberg's model fulfil the first three levels of Maslow's model of physiological needs, i.e. protection, safety, and social needs while the factors of motivation fulfil the two higher level needs of respect and self-actualization.

### Check Your Progress

3. What are static models?
4. In which year did Herzberg evolve the two-factor theory?

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## 6.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. Positive motivation includes accurate identification of the efforts of employees and the admiration of the involvement of the employee towards organizational goal accomplishment.
2. The root-cause for intrinsic motivation is a feeling of achievement and accomplishment and is related to the state of self-realization wherein the feeling of achieving something meaningful further motivates the worker such that this motivation is self-produced and is free of monetary gains.
3. Static models are primarily an attempt at observation of how a person responds to outside forces without exercising any control over the movement and effect of these outside forces.
4. Herzberg evolved the two-factor theory in the late 1950s and early 1960s.

### NOTES

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## 6.6 SUMMARY

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- The word motivation is derived from motive which is an active form of a desire, craving or need, which must be satisfied.
- According to the *Encyclopaedia of Management*, motivation is defined as, 'The degree of readiness of an organization to pursue some designated goal and implies the determination of the nature and locus of forces, inducing the degree of
- Motivational theory has played a dominant role in the emerging field of organizational behaviour.
- Essentially, there are two kinds of theories that are concerned 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 try to recognize the varying factors which result in motivation and their association with one another.
- 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.

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## 6.7 KEY WORDS

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- **Incentive:** It is something, such as the fear of punishment or the expectation of reward that induces action or motivates effort.
- **Motivation:** Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to move in a goal

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directed pattern towards restoring a state of equilibrium, by satisfying the need.

- **Valence:** It refers to negative or positive psychological value assigned by a person to another person, event, goal, job, object, outcome, etc., based on its attractiveness to him or her.

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## 6.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

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### Short-Answer Questions

1. Define motivation. Discuss its importance.
2. What are the five basic human needs as described by Maslow?
3. Differentiate between positive and negative motivation.

### Long-Answer Questions

1. Describe the various types of motivation.
2. Enumerate the two types of models of motivation.
3. Explain Mc Gregor's participation model.

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## 6.9 FURTHER READINGS

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## UNIT 7 LEADERSHIP

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### Structure

- 7.0 Introduction
- 7.1 Objectives
- 7.2 Meaning and Importance
  - 7.2.1 Traits of a Leader
- 7.3 Leadership Styles
- 7.4 Answers to Check Your Progress Questions
- 7.5 Summary
- 7.6 Key Words
- 7.7 Self Assessment Questions and Exercises
- 7.8 Further Readings

### NOTES

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### 7.0 INTRODUCTION

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This unit will discuss leadership. 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. Dictatorship under which the subordinates have to perform, would not be considered as true leadership.

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### 7.1 OBJECTIVES

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

- Define leadership
- Discuss the different traits of a leader
- Describe the various leadership styles

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### 7.2 MEANING AND IMPORTANCE

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Leadership can be defined as the art of influencing and inspiring subordinates to perform their duties willingly, competently and enthusiastically in order to achieve the desired organizational goals. A dictatorship under which the subordinates have to perform, would not be considered as leadership. A true leader motivates others to follow and induces a belief that the followers will gain by the policies of the leader.

Generally speaking, leaders are known to possess energy, intelligence, self-confidence, patience, maturity and a charismatic appearance and attitude. Whether

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these characteristics are inherited or learned is still a subject of debate. Which ones of these characteristics are important and necessary for leadership is not explainable. Many of these traits are also exhibited by followers and it is not explained as to why followers could not become leaders.

Leaders are also judged by their behaviour as leaders irrespective of the characteristics. If a manager has high consideration for the welfare of his subordinates and his policies, procedures and work assignments are all acceptable to the subordinates then such manager would be considered as a good leader.

Contingency theories of leadership propose that leadership can also be a function of the situation, so that the effectiveness of the leader's behaviour is contingent upon the demands imposed by the given situation. This approach defines leadership in terms of the leader's ability to handle a given situation and is based upon his skill in that particular area.

It is also possible to become a leader, if you know what the followers want and you have the resources or the know-how to satisfy these needs and wants, irrespective of the traits of the leader himself. This approach is known as the path-goal theory. The leader sets up 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. The job of the leader becomes even easier when the subordinates are sufficiently mature, where the maturity of the subordinates can be defined as their ability and willingness to take responsibility for direction their own behaviour in relation to a given task.

### 7.2.1 Traits of a Leader

A leader has certain inherent qualities and traits which assist him in playing a directing role and wielding commanding influence over others.

According to Prof. Arthur G. Jago, some of the traits of a leader are: energy, drive, presentable appearance, a sense of cooperativeness, enthusiasm, initiative, intelligence, judgment, self-confidence, sociability, tact and diplomacy, moral courage and integrity, will power, flexibility, emotional stability and knowledge of human relations.

These traits are not universal in nature, nor do all the leaders have all these traits. Neither do all these traits work all the time. While some of these characteristics differentiate successful managers and leaders from unsuccessful ones, it is the behaviour of the leaders, either as a result of these characteristics or otherwise, which is more tangible and obvious and less abstract in nature. The leadership behaviour is directly related to the morale of an individual employee. These are some of the indicators which, to some degree, reflect the effectiveness of leadership behaviour.

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## 7.3 LEADERSHIP STYLES

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The 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 behaviours which is a characteristic of the individuals, regardless of the situation.' Some of the more significant leadership styles are discussed as follows:

### **Autocratic or Dictatorial Leadership**

Autocratic leaders keep the decision-making authority and control in their own hands and assume full responsibility for all actions. Also, they structure the entire work situation in their own way and expect the workers to follow their orders and tolerate no deviation from their orders. The subordinates are required to implement 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, low morale and 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. Some of the advantages and disadvantages of autocratic leadership are as follows:

### **Advantages**

- (i) Autocratic leadership is useful when the subordinates are new on the job and have had no experience either in the managerial decision-making process or performing without active supervision.
- (ii) It can increase efficiency and even morale when appropriate and get quicker results, specially in a crisis or emergency when the decision must be taken immediately.
- (iii) The paternalistic leadership is useful when the subordinates are not interested in seeking responsibility or when they feel insecure at the job or when they work better under clear and detailed directives.
- (iv) It is useful when the chain of command and the division of work is clear and understood by all and there is little room for error in the final accomplishment.

### **Disadvantages**

- (i) One way communication without feedback leads to misunderstanding and communications breakdown.

## **NOTES**

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- (ii) An autocratic leader makes his own decisions which can be very dangerous in this age of technological and sociological complexity.
- (iii) Since it inhibits the subordinate's freedom, it fails to develop his commitment to the goals and objectives of the organization.
- (iv) Since it creates an environment which provides for worker resentment, it creates problems with their morale resulting in poor productivity in the long run.
- (v) It is unsuitable when the work force is knowledgeable about their jobs and the job calls for teamwork and cooperative spirit.

### **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 relations, higher morale and greater job satisfaction. This type of leadership is especially 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 growth and development of the organization as well as the individual personality.

In such situations, participative style of decision-making has several advantages. These are as follows:

- (i) Active participation in the managerial operations by labour assures rising productivity and satisfaction.
- (ii) Workers develop a greater sense of self-esteem due to importance given to their ideas and their contribution.
- (iii) The employees become more committed to changes that may be brought by policy changes, since they themselves participated in bringing about these changes.
- (iv) The leadership induces confidence, cooperation and loyalty among workers.
- (v) It results in higher employee morale.
- (vi) It increases the participants' understanding of each other which results in greater tolerance and patience towards others.

It has been demonstrated by numerous researches that participation by subordinates improves quality of work, enhances an easy acceptance of changes in the organization and improves morale and loyalty.



Notwithstanding numerous advantages and great reliance on participative leadership, it has several disadvantages. Some of these are as follows:

- (i) The democratic leadership requires some favourable conditions in that the labour must be literate, informed and organized. This is not always possible.
- (ii) This approach assumes that all workers are genuinely interested in the organization and that their individual goals are successfully fused with the organizational goals. This assumption may not always be valid.
- (iii) There must be total trust on the part of management as well as employees. Some employees may consider this approach simply an attempt to manipulate them. Accordingly, the employees must be fully receptive to this approach to make it meaningful.
- (iv) Some group members may feel alienated if their ideas are not accepted for action. This may create a feeling of frustration and ill-will.
- (v) This approach is very time consuming and too many viewpoints and ideas may make the solid decision more difficult and may be a source of frustration to impatient management.
- (vi) Some managers may be uncomfortable with this approach because they may fear an erosion of their power base and their control over labour.
- (vii) This approach relies heavily on incentives and motivation of recognition, appreciation, status and prestige. However, labour may be interested in financial incentives instead of prestige.

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### **Laissez-faire or Free-reign Leadership**

In this type of leadership, the leader is just a figure-head and does not give any direction but 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 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 intelligent and are fully aware of their roles and responsibilities and have the knowledge and skills to accomplish these tasks without direct supervision.

### **Advantages**

- (i) It creates an environment of freedom, individuality, as well as team spirit.
- (ii) It is highly creative with a free and informal work environment.
- (iii) This approach is very useful where people are highly motivated and achievement oriented.

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**Disadvantages**

- (i) It may result in disorganized activities which may lead to inefficiency and chaos.
- (ii) Insecurity and frustration may develop due to lack of specific decision-making authority and guidance.
- (iii) The team spirit may suffer due to possible presence of some uncooperative members.
- (iv) Some members may put their own interests above the group and team interests.

**Paternal Leadership**

As the name suggests, in paternal leadership the leader acquires the role of the *pater* (father) of the group. The group is like a family and the leader is the primary controlling figure of the group. The chief functions of the leader include guiding and supporting the members.

This kind of leadership style is based on a centralized management process. The leader is the primary decision maker and is supported by the other members of the group. However, for this kind of leadership style to thrive, it is vital that the members are satisfied in order to ensure efficiency.

The leaders of the group are primarily involved in implementing significant policies and focusing on potential complexities that might occur. Thus, there exists harmony and balance in the team although the team leader is the established head of the group.

**Personal Characteristics 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 as follows:

- **Ability to inspire others:** This ability may be due to an internal ‘charisma’ which is an inborn trait and may not be a learnable factor.
- **Problem solving skills:** An effective leader has developed the patience and ability to look at the problem from various angles and get down to the cause of the problem and he tries to solve the problem from its roots rather than the symptoms of the problem.
- **Emotional maturity:** Emotional stability and maturity is a major ingredient for effective leadership. It pertains to good adjustment to life, calm, cool and calculated reaction to undesirable situations and obstacles and normal acceptance of success as well as failure.

- **Ability to understand human behaviour:** A leader must understand the needs, desires and behaviour of his subordinates and show respect for such desires. He is emotionally supportive and is careful enough to avoid ego threatening behaviour. He must give credit to subordinates when their efforts are successful.
- **Verbal assertiveness:** A leader must be an effective orator and must be confident of his views and opinions. He must communicate his views honestly and in a straight forward manner without fear of consequences.
- **Willingness to take risks:** Routine work, no matter how well-done, never makes a leader. Successful leaders always charter the unknown. They must accept and seek new challenges. However, the risks must be calculated ones and outcomes of actions be reasonably predicted.
- **Dedication to organizational goals:** A leader must demonstrate his dedication and commitment to the organization's mission, goals and objectives by hard work and self-sacrifice. He must make sure that his followers fully understand the organizational objectives and are equally dedicated and willing to work for these objectives.
- **Skill in the art of compromise:** Settling differences is a valid part of leadership and genuine differences must be solved by compromise and consensus. This will induce faith in the fairness of the leader. He must be willing to give in where necessary and must be able to take criticism with grace. However, he must not compromise for the sake of compromising or just smooth sailing only and must be willing to take a stand on controversial issues and accept the consequences of his stand.

## NOTES

### Check Your Progress

1. Define leadership.
2. List some of the traits of a leader.
3. Who are autocratic leaders?
4. What happens in paternal leadership?

## 7.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Leadership can be defined as the art of influencing and inspiring subordinates to perform their duties willingly, competently and enthusiastically in order to achieve the desired organizational goals.
2. Some of the traits of a leader are: energy, drive, presentable appearance, a sense of cooperativeness, enthusiasm, initiative, and so on.

## NOTES

3. Autocratic leaders keep the decision-making authority and control in their own hands and assume full responsibility for all actions.
4. In paternal leadership the leader acquires the role of the *pater* (father) of the group. The group is like a family and the leader is the primary controlling figure of the group. The chief functions of the leader include guiding and supporting the members.

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### 7.5 SUMMARY

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- Leadership can be defined as the art of influencing and inspiring subordinates to perform their duties willingly, competently and enthusiastically in order to achieve the desired organizational goals.
- A leader has certain inherent qualities and traits which assist him in playing a directing role and wielding commanding influence over others.
- A style of leadership is a 'relatively enduring set of behaviours which is a characteristic of the individuals, regardless of the situation.
- Autocratic leaders keep the decision-making authority and control in their own hands and assume full responsibility for all actions.
- In free-reign leadership, the leader is just a figure-head and does not give any direction but delegates the authority to subordinates so that they must plan, motivate, control and otherwise be responsible for their own actions.

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### 7.6 KEY WORDS

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- **Leadership:** It is the action of leading a group of people or an organization, or the ability to do this.
- **Morale:** It means the amount of confidence felt by a person or group of people, especially when in a dangerous or difficult situation
- **Teamwork:** It means that people will try to cooperate, using their individual skills and providing constructive feedback, despite any personal conflict between individuals.
- **Autocratic:** It means someone who takes no account of other people's wishes or opinions.

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### 7.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. What are contingencies theories of leadership?

2. Write a short-note on different leadership traits.
3. What is laissez-faire leadership?

*Leadership*

### **Long-Answer Questions**

1. Discuss the advantages and disadvantages of dictatorial leadership.
2. Describe some paternal characteristics of leaders.
3. Explain democratic leadership. What are its advantages?

### **NOTES**

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## **7.8 FURTHER READINGS**

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## UNIT 8 LEADERSHIP STYLES AND DIRECTING

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### NOTES

#### Structure

- 8.0 Introduction
- 8.1 Objectives
- 8.2 Likert's Systems of Management and Managerial Grid
  - 8.2.1 Tannenbaum and Schmidt Model
- 8.3 Directing: Nature and Principles
  - 8.3.1 Principles of Direction
- 8.4 Answers to Check Your Progress Questions
- 8.5 Summary
- 8.6 Key Words
- 8.7 Self Assessment Questions and Exercises
- 8.8 Further Readings

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### 8.0 INTRODUCTION

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In the previous unit, you learnt about leadership. In this unit we will discuss directing. Directing is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals. Directing as a concept is a bit different from leadership. Leadership is about motivating and inspiring, while directing is related to taking a company into a specific organization. The unit will also discuss the Likert System of Management and the Managerial Grid.

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### 8.1 OBJECTIVES

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

- Discuss the nature and principles of directing
- Describe the managerial grid model
- Examine Likert's four system model

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### 8.2 LIKERT'S SYSTEMS OF MANAGEMENT AND MANAGERIAL GRID

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Let us begin by discussing Likert's four systems model.

## Likert's Four Systems Model

Rensis Likert and his associates at the University of Michigan (1946-1970) studied and surveyed a number of organizations in terms of their management styles. They developed various styles of management. Likert is best known for the development of 'attitude surveys'; however, he also developed theory of participative management. Most of his studies focus on human relations approach and participative approach. He asserts that in order to gain maximum profit and high productivity, every organization must make optimum use of their human assets. His explanation for low efficiency departments and high efficiency departments are characterized by the following elements.

- **Low efficiency departments:** Low efficiency departments have supervisors who, being job centred, keep workers busy through a prescribe work cycle and prescribed procedures. The job is reduced to component parts with trained workers to do them, and constant pressure is applied to achieve prescribed output.
- **High efficiency departments:** High efficiency departments have supervisors, who being people oriented, focus on the human aspects and build effective work groups pursuing high achievement goals. The supervisors attempt to know employees as individuals and motivate them to be innovative and creative in producing high quality goods at a minimum cost.

Organizations at present have widely varying types of management styles and Likert has identified four main systems. He has explained these systems in an evolutionary manner from autocratic to participative styles. These systems are based on the study of various variables such as motivation, communication, interaction among superiors and subordinates, goal setting process and decision-making process. A brief description of Likert's management systems is given as follows.

### Management Systems

- (a) **System I. The exploitive-authoritative system:** This system is autocratic in style and autocratic managers 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 and tolerate no deviation from their orders. Standards and methods of performance are also set by the managers. The communication between the manager and the subordinates is highly formal in nature and is only from top to bottom. The subordinates have absolutely no say in decision-making matters or processes. They are only interested in getting the work done and do not hesitate to use threats and punishments as ways of doing so. 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 power to reward and punish employees.

## NOTES

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- (b) **System II. Benevolent-autocratic:** The managers under this system are also autocratic but are much more paternalistic in nature. They give some flexibility to subordinates to carry out their assignments. Managers use rewards for goal achievement and use punishment for inefficient operations. Information flowing upwards is limited to what managers want to hear and know and subservience is expected from lower level workers. Thus managers adopt a benevolent attitude towards the obedient and faithful subordinates. In other words, motivation is governed by *carrot and stick* approach.
- (c) **System III. Consultative:** In this management system, subordinates are consulted in a limited way before policy or operative decisions are made. Superiors have substantial but not complete trust in their subordinates. They make major decisions by themselves and allow subordinates to make routine decisions. There is some two-way communication between workers and supervisors and a moderate amount of team work. The control system tends to be flexible and goal oriented. More emphasis is paid to rewards for better performance than on punishment for poor performance and rewards are used for motivational purposes.
- (d) **System IV. Participative-democratic:** In this type of management style, the subordinates are consulted and their feedback is taken into decision making process. Work related decisions are left to subordinates. The manager recognizes that the subordinates are equipped with talents and abilities and they are capable of bringing new ideas and new methodologies to work settings. Goals are set together and personnel at all levels feel real responsibility for achieving organizational goals. There is free two-way communication. This ensures better management-labor relations, higher morale and greater job satisfaction. Supervision and control are group oriented. The result is high productivity and better industrial relations.

Likert's thesis is that the system IV or participative management is the only valid and viable approach to optimize organizational performance and employee satisfaction. He suggested that all organizations should adopt this system. He further suggested that to convert an organization to a system IV style, four features of effective management must be put into practice.

### Features of Effective Management

- The motivation to work must be fostered by modern principles and techniques, and not by the old system of rewards and punishment.
- Employees must be seen as people who have their own needs, desires and values and their self-worth must be maintained or enhanced.
- An organization of tightly knit and highly effective work groups must be built up which are committed to achieving the goals and objectives of the organization in an optimal manner.



- Supportive relationships must exist within each work group. These are characterized by mutual respect.

The following are the characteristics of work groups which form the nuclei of the participative group:

- Members are skilled in leadership and membership roles for easy and clear interaction
- The group has developed a well established relaxed working relationship.
- The members of the group are loyal to the group and to each other since they have a high degree of mutual trust.
- The norms, values and goals of the group are a reflection of the values and the needs of its members.
- The members of one group work with members of other groups in harmony and respect.

### **Managerial Grid**

Another aspect of 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, 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 emphasised 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.

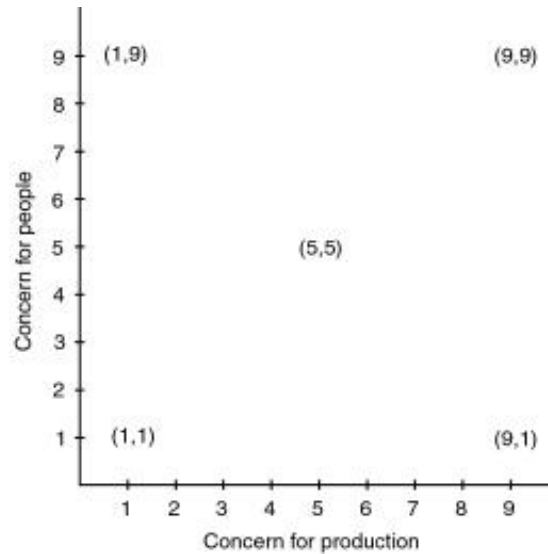
According to Rao and Narayana, the concern for production is not limited to things only, and concern for people cannot be confined to narrow considerations of interpersonal warmth and friendliness. Production can be measured in terms of creative ideas of people that turn into useful products, processes 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 management grid is built on two axis, one representing the 'people' and the other the 'task'. Both the horizontal, as well as the vertical axis are treated as a scale 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

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towards workers who are expected to perform such tasks. Blake and Mouton have identified five coordinates that reflect various styles of leader behaviour. The managerial grid figure and these styles are shown in Figure 8.1.

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**Fig. 8.1** *Styles of Leader Behaviour*

The managerial grid diagram as shown can be interpreted as follows:

- *Coordinates (1, 1)* This represents an impoverished management and the manager makes minimum efforts to get the work done. Minimum standards of performance and minimum worker dedication.
- *Coordinates (9, 1)* Excellent work design. Well established procedures. Minimum worker interference. Orderly performance and efficient operations.
- *Coordinates (1, 9)* Personal and meaningful relationships with people. Friendly atmosphere and high morale. Loosely structured work design.
- *Coordinates (9, 9)* Ultimate in managerial efficiency. Thoroughly dedicated people. Trustworthy and respectable atmosphere. Highly organized task performances. Known as team management style, it relies upon interdependence of relationships based upon trust and respect and work accomplishment based upon commitment of employees.
- *Coordinates (5, 5)* Known as the middle-of-the-road management style, it is concerned with balancing the necessity to get the work done while maintaining worker morale at a satisfactory level. The goal is to achieve adequate organizational performance.

This managerial grid provides a reasonable indication of the health of the organization as well as the ability of the managers. The model assumes that there is one best or most effective style of management, which is the style indicated by coordinates (9, 9) also known as team management style. It is the objective of all management to move as close to this style as possible, for managers who emphasise both high

concern for people as well as productivity are presumed to be more successful. Accordingly, managers should be carefully selected on the basis of their ability to coordinate people and tasks for optimum benefit.

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.

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### 8.2.1 Tannenbaum and Schmidt Model

The contingency theorists, Robert Tannenbaum and Warren Schmidt proposed that leadership behaviour varies along a continuum and that as leaders move away from the autocratic extreme as the amount of follower participation and involvement in decision taking increases. They identified three forces that led to the leader's action: the forces in the situation, the forces in the follower and also forces in the leader. They also proposed a more detailed approach to defining leadership styles. Their model shows the spectrum of possible styles along a continuum linking autocratic leaders, who tell their staff what to do at one extreme, with those who delegate authority for decision-making to subordinates, at the other. The two extremes represent the ideas characterised by Theory X and Theory Y managers. Managers may move along this continuum as external factors alter and situations change. This is shown in Figure 8.2 below.

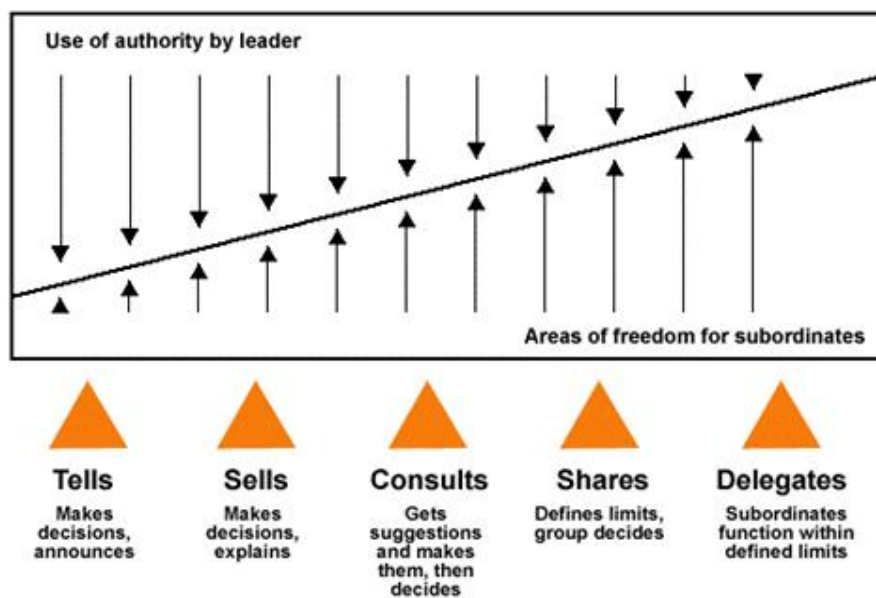


Fig 8.2: Tannenbaum and Schmidt's Leadership Model

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### 8.3 DIRECTING: NATURE AND PRINCIPLES

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Directing and leading comprise the managerial function of guiding, overseeing and leading people. The primary element in this function is the human element and deals in personal relationships. This area is primarily geared towards leadership, motivation, and communication. Since the human element is the central element in the art and science of managing, the study of human relations has been of major interest to management.

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. Accordingly, 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 cooperation among all people to work together to achieve both individual and group goals.

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.

#### **Organizational climate**

Schneider refers to organizational climate as the entire internal environment of the organization. The climate reflects the needs, desires and aspirations of the people who form the Environment. In that context an environment has about it a set of characteristics that are perceived by the organizational members. According to Litwin and Stringer, some of these characteristics include:

- (a) The extent of individual autonomy allowed to members.
- (b) The degree to which superiors establish and communicate objectives, rules and methods to their subordinates.
- (c) The types of behaviours rewarded by the organization and the types of rewards offered.
- (d) The consideration, warmth and support expressed by superiors to their subordinates.
- (e) The extent of conflict and how it is managed.
- (f) The extent to which the members are allowed to participate in the decision making process.

Each organization will be different in the climate as well as in the direction style. The directional style will depend upon the philosophy, culture and outlook of the manager. Similarly, the organizational climate is also identified by its culture, its traditions, history of the organization etc. There are a number of categories that define the climate of many organizations. According to Harrison, there are four broad categories. These are:

1. *Power-oriented climate*: These are organizations that are dominated by autocratic, leadership. These may be family dominated businesses or an organization which was started by one person who is still influential in organizational policy decisions. The power structure is highly visible and the subordinates are highly dependent upon their superiors for job security and job advancement. Decisions are made at the top and the instructions for implementing such decisions pass down along the chain of command.
2. *Role-oriented climate*: In this type of organization, all managerial and worker roles are clearly defined. The operative rules and procedures regulate actions and operations resulting in order and rationality. These organizations are highly stable and changes are difficult to implement. Responsibility and accountability are adequately traceable. Individual judgements are influenced by established rules and regulations.
3. *Task-oriented climate*: In a task-oriented organization, all efforts are directed towards goal achievement. For example, if the goal is quality health care in a hospital, all decisions and efforts are directed towards that goal. All performances are measured relative to the goal standards. All rewards are based on the degree of contribution towards that goal. All activities, all rules and regulations are designed with only the goal in mind. All unskilled people relative to that particular goal are replaced or retrained. Any deviations are taken very seriously. The goals are highlighted. These goals may be profit-making, capturing a market share, imparting high quality education in a university etc. Some innovative business companies who hire only the most professional workers would fall into this category.
4. *People-oriented climate*: These are organizations where people are given a lot of freedom to be their own bosses. The primary purpose of such organizations is to serve the needs of its members. Within the general guidelines of the organizations, the rules and regulations are flexible and consistent with the values as well as the aspirations of the employees. For example, a person associated with a consulting firm takes up only those jobs that he likes to do. Similarly, voluntary work with some civic groups is directed towards self-satisfaction and self-actualization.

While all organizations may not necessarily fit into any one of these categories and some organizations may have an integration of more than one type of climate, the specific directing process is highly dependent upon the organizational environment. For example, in an organization with power-oriented climate, the directing function

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is highly important and visible, where workers are continuously directed towards certain functions. On the other hand, the people-oriented, climate needs minimum of direction from the top.

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### Human relations

Direction is concerned with securing the cooperation of workers for the realization of organizational objectives. Such operation is easier to obtain, if personal objectives are integrated with organizational objectives. While organizational objectives are well established and defined for a given organization, the individual objectives are highly diversified and depend upon the workers' beliefs, perceptions and emotions. Hence the characteristics of human behaviour as well as the field of human relations must be fully realized by the management.

Human relations is a highly diverse field. Human beings can inter-act with each other in a number of ways—everything from helping and cooperation on one extreme to conflict and aggression on the other. Studies by psychologists and cultural anthropologists have provided important insights into the patterns of human behaviour. Some of the factors affecting the human behaviour are:

1. **Cultural influences:** Culture is a learned phenomenon from the very childhood and is influenced by the family environment as well as the external environment. It consists of a common way in which people live, think and work in a society and interact with each other. It is a shared set of beliefs, customs and habits within a group. It is crystallized in the institutions that people have built together with grassroots in religion, family, community, education etc.

Business operations and managerial actions are always affected by the cultural setting of its organizational members. Some cultures expect participative style of managerial leadership, while members of other cultures believe in personality cult thus expecting authoritarian style of leadership. Accordingly, the function of directing must ensure that all directions are in accordance with the cultural values of the people and any possible conflicts are minimized.

2. **Role and status:** Status implies standing in the community and is determined by the role of a person. A police commissioner or a judge has a high status in the society because of the role he plays. For example, a police commissioner who is fired from the job loses his status because he is no longer in the role of the police commissioner.

Similar status differences exist within the organization. These differences may be due to the positions in the scalar chain of the hierarchical structure or these may be due to performance of different functions, where respect is earned due to skill in a given function. Chatterjee suggests that these status differences serve four purposes in a formal organization. First, the status system in a hierarchical chain of command influences the directing function of management by facilitating effective and authoritative communication from

the top management down to workers. Secondly, the position of higher status is in itself a motivation to persons of lower status who expect to move up through their contributions towards the organizational goal. Thirdly, it infuses a sense of responsibility among people of all statuses who want to continue to prove that they deserve that status. Fourthly, it identifies and differentiates between persons of superior ability from persons of inferior ability but similar positional status.

Care must be taken, however, that these status differences do not become the cause of conflicts among people.

3. **Informal social groups:** Informal social groups develop and emerge due to spontaneous informal relationships among people and workers who work together as a unit in a given environment. For example, people of similar nature eat together, and take a break together. This results in opportunities for friendship and internally rewarding relationships on the job. Members of these informal groups assist each other and get satisfaction from it. They also supplement the formal channels of communication and are a good source of information about the psychological setup of the group and its behaviour, which the formal communication route may not uncover. Accordingly, management must seek out these groups, come to understand them, recognize their importance, and utilize them constructively.
4. **Perception:** There is an old saying, 'that everyone sees the world through different eyes.' Also there is a poem that suggests something like, 'As in cloud and fire, a man sees the image of his own desire.' Even when exposed to the same situation or information, different persons react differently, each person believing himself to be correct. The process through which we interpret the meaning of the world around us is termed 'perception' and it plays a very important role in behaviour.

Accordingly, the management must understand that how the worker views and interprets the environment around him is very important. It will aid the function of directing, if the management directs its efforts in accordance with the worker's view of the organizational climate and in addition tries to modify the worker behaviour so that the worker viewpoint coincides with the management's viewpoint regarding organizational operations.

5. **Logic and emotions:** Man is logical to a point but he is much more emotional in nature. Even his logic, sometimes, is directed towards justifying what his emotions believe in. If a man loves a woman he would not listen or believe anything said against her. The logical aspect of human beings provide for economic rationality or utilitarian concept, which forms the basis for decisions and actions in choosing careers and work conditions and exercising many other responsibilities and duties of life. However, emotions play a greater part in shaping up the behaviour, especially when the feelings are affected.

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The measure of success of the directing function would depend upon, not only the logical aspect of the human thought process, but also on how it harnesses the emotions of the worker in a 'positive manner, favourable to organizational objectives. This will create loyalty—sometimes blind loyalty—and dedication among workers.

### 8.3.1 Principles of Direction

Some of the principles of direction are:

- 1. Integrated objectives:** Effective directing requires that the goals of the organization and the individuals in the organization should be integrated so that all subordinates develop a sense of belonging to the organization and hence the contributions of the subordinates to the company goals will be maximum.
- 2. Direct supervision:** The superiors should maintain direct contact with subordinates; Informal relationships facilitate the function of directing. It also makes communication easier, encourages feedback and faster decisions. Also, when the direction and communication is properly understood and comprehended, there would be fewer misunderstandings and mistakes leading to efficiency in quality and productivity. .
- 3. Participative managerial style:** The subordinates' morale will be higher when their views are seriously incorporated into the managerial decision making. This will assist the formation of democratic management. The democratic process makes the direction process easier since the direction, then, is not taken as a command but as a form of guidance for improvements.
- 4. Unity of direction:** The direction must be clear and unambiguous and from a single chain of command, otherwise the authority will be undermined resulting in disorder and confusion.
- 5. Follow-through:** Effective direction demands achievement of results. The results can only be achieved by being constantly in touch with the developments. This requires continuous supervision, guidance, advice and coaching of subordinates in their activities to attain the desired goals.

The directing function can be conceived as a vector with two dimensions, namely, (1) magnitude and, (2) aim or direction. Hence there must be a goal to be reached and a movement towards that goal. The management must steer the organization towards that goal by directing the efforts of the subordinates in the right direction with magnitude or efficiency.



### **Check Your Progress**

1. What are supervisors in low efficiency departments like?
2. Who developed the managerial grid?
3. What is the organizational climate?
4. What is direction concerned with?

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## **8.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS**

1. Low efficiency departments have supervisors who, being job centred, keep workers busy through a prescribe work cycle and prescribed procedures.
2. Managerial grid was developed by Robert Blake and Jane Mouton and plays an important part in managerial behaviour in organizational development.
3. Schneider refers to organizational climate as the entire internal environment of the organization.
4. Direction is concerned with directing the human efforts towards organizational goal achievement.

## **8.5 SUMMARY**

- Likert is best known for the development of ‘attitude surveys’; however, he also developed theory of participative management.
- Another aspect of 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.
- The management grid is built on two axis, one representing the ‘people’ and the other the ‘task’.
- The contingency theorists, Robert Tannenbaum and Warren Schmidt proposed that leadership behaviour varies along a continuum and that as leaders move away from the autocratic extreme as the amount of follower participation and involvement in decision taking increases.
- Directing and leading comprise the managerial function of guiding, overseeing and leading people. The primary element in this function is the human element and deals in personal relationships.

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- 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.

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### 8.6 KEY WORDS

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- **Directing:** It is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals.
- **Managerial Grid:** It is a graphical plot of a leader's assessment of the importance of a task versus the importance of employees, which can be used to determine leadership style.
- **Job Satisfaction:** It is a measure of workers' contentedness with their job, whether or not they like the job or individual aspects or facets of jobs, such as nature of work or supervision. Job satisfaction can be measured in cognitive, affective, and behavioural components.

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### 8.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. Discuss the managerial grid model of leadership.
2. Write a short-note on Tannenbaum and Schmidt leadership model.

#### Long-Answer Questions

1. What is directing? Discuss its principles.
2. Describe Likert's Four Systems Model.

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### 8.8 FURTHER READINGS

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**BLOCK - III**  
**BASIC FUNCTIONS OF MANAGEMENT**

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**NOTES**

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**UNIT 9    CONTROLLING**

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**Structure**

- 9.0 Introduction
- 9.1 Objectives
- 9.2 Nature and Scope of Control
  - 9.2.1 Types of Control
  - 9.2.2 Control Process
- 9.3 Control Techniques: Traditional and Modern
- 9.4 Effective Control System
- 9.5 Answers to Check Your Progress Questions
- 9.6 Summary
- 9.7 Key Words
- 9.8 Self Assessment Questions and Exercises
- 9.9 Further Readings

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**9.0    INTRODUCTION**

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Control is one of the most important functions of management, second, perhaps, only to the function of decision-making. Control has very broad applications in both the personal as well as the industrial world, which ensures that events turn out the way they are intended to. Control is a powerful force if applied properly. For instance, energies like nuclear power, controlled air and controlled water run machines and industries.

Control is a set of mechanisms used to evaluate 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.

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**9.1    OBJECTIVES**

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

- Discuss the nature and scope of controlling
- Elaborate the creation of standards against which the performance is measured
- Describe various types of performance evaluations

- Explain some of the devices used in measuring performance
- Explain some of the characteristics of effective controls
- Discuss the different types of managerial control techniques

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### 9.2 NATURE AND SCOPE OF CONTROL

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Control is very important both in 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 soundly 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 intended actions. This map is provided through the planning process.

But 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 are occurring so that corrective action can be taken'.

The inter-relationship between the functions of planning and controlling is clearly evident. Planning involves the establishment of organization objectives and the development of strategies, while controlling establishes standards of performance and compares actual results with the planned results to determine whether operations are being performed according to plans.

#### Characteristics of Effective Control

Controls at every level focus on inputs, processes and outputs. It is very important to have effective controls at each stage. 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 characteristics:

- 1. 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.

2. **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.
3. **Flexibility:** The business and economic environment is highly dynamic in nature. Technological changes occur very fast. A rigid control system would 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.
4. **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.
5. **Integration:** 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.
6. **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.
7. **Strategic placement:** Effective controls should be placed and emphasized 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.
8. **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 percent of maximum inventory at hand, then the computer will signal for replenishment for such items.

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**9. 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.

### 9.2.1 Types of Control

There are basically four types of controls, each type being determined primarily by the time period in which the control is applied in relation to the operation being performed. These are:

**1. Pre-controls:** These controls are also known as ‘feed-forward’ controls and are basically preventive in nature. The control takes place before 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 a 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.

**2. Steering controls:** The key feature of these controls is the capability to take corrective action, when the deviation has already taken place but the task has not been completed. Some of the examples are inflight corrections of off-course airplanes and guided missiles or steering the car into the lane when it is off the lane.

The great advantage of steering control is that corrective actions can be taken early. An early start with steering controls increases the chances that we will achieve a favourable outcome. For example, the sooner the failing student gets tutoring in his course the better are his chances of passing the course.

**3. Yes/No controls:** These controls are designed to check at each check point whether the activity should be allowed to proceed further or not. These controls are necessary and useful where a product passes sequentially from one point to another, with improvements added at each step along the way. These controls stop errors from being compounded. Quality control checkpoints where inspection would determine whether the activity should

continue or not is an example. Safety checks and legal approvals of contracts before they can be executed are other examples of yes/no controls.

The underlying aim of this type of control is to make sure that some predetermined standard is met before an activity is allowed to continue. For example, a student may not be allowed to go to the next grade unless he passes the previous grade. A car may not be allowed on the road unless it passes inspection. Assuming the control is well designed, it helps to achieve conformity with the set standards. Yes/no controls can be very time consuming and in addition raise a possibility of misuse. For example, a car inspection can take a whole day even if there is nothing wrong with it. The abuse can occur when the basis for yes/no controls are not clearly defined or sharply limited. For example, a chairman of a department can deny a professor his promotion if one of the criterion for yes/no control is 'research' which is not clearly defined or measurably quantified.

- 4. Post-action controls:** Also known as 'feedback' control, post-action controls measure results from completed actions. The results 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 reasons 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

### 9.2.2 Control Process

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:

#### 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

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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 per 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 incharge of production may have a goal of keeping the production cost within assigned budget over a period of time. In attaining such a goal, he will be able to monitor the costs and take corrective action wherever it is necessary. As another example, a college professor may have a goal of covering ten chapters 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 ease in communication to all persons and this makes 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 mechanism would be subjective in nature and decisions would be made on the basis of experience, analytical observations and intuitive judgements. Some of the quantitative standards against which performance can be measured are:

- 1. Time standards:** The goal will be set on the basis of time lapse in performing a particular task. It could be units produced per hour, number of pages typed per hour or number of telephone calls made per day. Managers utilize time standards to forecast work flow and employee output. Standard employee output also determines the extent of financial incentive plans.
- 2. Cost standards:** These standards indicate the financial expenditure involved per unit of activity. These could be material cost per unit, cost per person, cost of distribution per unit and so on. Budgets are established to reflect these costs and they provide monetary check-points for comparing actual costs with budgeted costs.
- 3. Income standards:** These relate to financial rewards received for a particular activity. Examples would be sales volumes per month, sales generated by a sales person per year and so on.
- 4. Market share standards:** This goal would be oriented towards the percentage of the total market that a company wants to retain or further acquire. For example, a company may want to increase its share of the market by four percentage points per year for the next five years.



5. **Quality standards:** These standards express levels of quality expected of a product or service. There are quality control programs which monitor the level of quality of a product. These may be tolerances within which the quality may be accepted. For example, the space shuttle and aircraft manufacturers have zero-defect production requirement while other products may have less stringent quality standards.
6. **Productivity:** Productivity or quantity standards are expressed in numerical terms as the expected number of items produced per man hour or per given activity. These goals are the key to operational efficiency and are set on the basis of past performance, degree of mechanization, employee skills and training required and motivation of employees.
7. **Return on investment (ROI):** Return on investment is comprehensive and useful standard as it involves all facets of the business such as turnover, sales, working capital, invested capital, inventory levels at given times, production costs, marketing costs and so on. It is a ratio of net income to invested capital. It is superior to market share as a standard because a large market share does not necessarily mean higher profits.
8. **Quantitative personnel standards:** The worker morale and dedication can be measured to some degree by some quantitative standards. These standards may be the extent of employee turnover, number of work related accidents, absenteeism, number of grievances, quality of performance and so on.

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### 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 pre-determined criterion. The unit or the yard stick thus chosen should be clear, well defined and easily identified and should be uniform and homogeneous throughout the measurement process.

According to Suchman, there are five types of evaluations. These are:

1. **Effort:** Effort reveals the extent of input and the idea is to measure such input to see if it is adequate in meeting the set objectives. For example, the number of courses offered in the Business Department at the university would indicate the extent of the business program. Similarly, the number of patient beds in a hospital would be a measure of input for providing healthcare. A salesperson's performance may be measured by the number of calls he makes per day. Peter Blau gives an example of an employment

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agency where effort was evaluated by the number of applicants interviewed and counselled. However, the measurement of input was a poor indicator of results since simply counselling applicants did not mean that they all got jobs. Similarly, the number of beds in a hospital does not necessarily mean quality health care which is the ultimate goal.

2. **Effectiveness:** As indicated above, the evaluation of input elements does not adequately convey the degree of effectiveness and results. This problem can be eliminated by measuring outputs such as the number of clients placed in jobs, in the case of the employment agency or the number of patients cured in a given period of time in the case of a hospital.
3. **Adequacy:** Adequacy is the ratio of output to need and is a useful measure if the need and the output can be clearly identified and related. If the needs are satisfied then the performance can be considered as adequate.
4. **Efficiency:** Efficiency relates output to input. According to Euske, in terms of efficiency, it is better if more can be done with the same amount of input or same output can be generated with less input. Efficiency measures are useful for comparing the same process at two points in time or two different processes with the same output.
5. **Process:** It relates to underlying processes which convert effort into outcome or input into output. It treats output as a function of input so that the focus is on evaluation of mechanisms that convert efforts into results, rather than the effort itself. This understanding of mechanism will assist in predicting the output of the organization for a given input. However, the process must be mechanistic in nature and clearly understood in order to be effective. For example, a salesperson cannot know if his presentation will result in a sale even when such a presentation is done well and is well received.

### 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:

**1. 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, some others 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 analyse 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.

**2. Ratio analysis:** Ratio analysis is a powerful management tool for measuring various aspects of business operations. It describes the 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 used again and again. 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.

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**3. 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 cost against those of other hospitals and the performance of police departments can be measured by comparison of crime rates in their locality with crime rates in other localities. Statistical models can be used for such measurements and such comparisons.

**4. 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 have a general idea about how people are working. An airline officer may fly incognito to evaluate the performance of in-flight 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 tells 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 set?
- 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 went over budget and over time. 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.

- Negative deviations:** Negative deviations are those that have negative repercussions as a result 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 levels. This underperformance must be evaluated to determine whether goals should be changed or if any other corrective action is needed. For example, if there has been a delay in completing the project, the reason may be low morale of workers which may be evident by excessive absenteeism or inefficient performance or the persons may not have been well trained for the specific job. A cost overrun could be due to price increases initiated by outside vendors or it could be due to excessive machinery breakdown. These deviations must be detected and properly evaluated.
- Positive deviations:** Positive deviations indicate that the performance was better than expected and the goals achieved were either sooner 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.

### Taking Corrective Action

Once the deviations have been detected and presented to 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 constraints of cost and personnel.

Since the actual results do not always conform to the desired results, some deviations may be expected and thus acceptable and hence no corrective action may be needed. However, when deviations are of sufficiently serious nature, the following guidelines may be adopted for taking necessary action.

- 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

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and corrective 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 astatic 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. What is the relationship between planning and control?
2. What are negative deviations?

### 9.3 CONTROL TECHNIQUES: TRADITIONAL AND MODERN

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

#### Traditional Control Techniques

The traditional control techniques can be further classified into:

- (i) Budgetary Control
- (ii) Non-Budgetary Control

#### Meaning of budgetary control

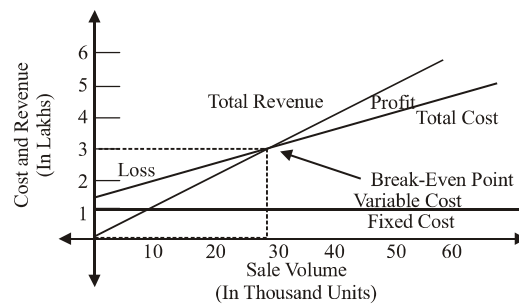
Budgetary control is a method that sets performance requirements through the preparation of budgets. It calculates and compares actual results with corresponding budget data and takes necessary actions to correct the deviations. The process consists of preparing and utilizing budgets to evaluate actual 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.
- **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. Figure 9.1 graphically represents break-even analysis.



**Fig. 9.1 A** Break-even Analysis

It shows the impact of change in any one of these three on the other two. It helps to decide the profitability of any specific activities. The break-even point is the point at which total revenue is equal to the total cost. It is a neutral situation of neither profit nor loss. A position below the point denotes losses and above it denotes profits. The chart also indicates the impact of fixed and variable costs on 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.

### Modern 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

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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.
3. 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:

1. In case of frequent price changes, it becomes difficult to calculate it.
2. 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:

1. Accounting for people as an organizational resource
2. Involving measurement of the cost incurred in the acquisition and development of human assets and
3. 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:

1. 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:

1. No general, dependable standards of human resource measurement are available.
2. 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.

### **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.

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- **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.

### **Role of IT in Organizational Control**

The advent of computers has revolutionized the management process. Today, organizations can manage the actions of employees and processes by implementing certain software systems in their premises. Let us look at few such examples.

- IT has enabled easy authentication. With the aid of digital signatures, smart cards, biometric data, and a combination of user names and passwords, the management can validate the credentials of a person, process, or device.
- There are certain IT programmes that authorize a person or a device access certain information.
- Nonrepudiation is another important role played by IT systems. The technique ensures that people performing an action on a computer cannot falsely deny that they performed that action. The process provides undeniable proof that a user undertook a specific action such sending a message.
- Access control has become more fool-proof due to the presence of IT mechanism that limits access to certain information based on a user's identity and membership in various predefined groups.
- Newer IT software act as tools for the management in detecting, understanding, and recovering from security breaches.
- There are certain integrity tools that enable the management in determining whether unauthorized changes have been made to a system.

### **Check Your Progress**

3. What are the two types of traditional control techniques?
4. What is management audit?

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## 9.4 EFFECTIVE CONTROL SYSTEM

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### Overall Control

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 following characteristics.

- 1. 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.
- 2. 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.
- 3. Flexibility.** The business and economic environment is highly dynamic in nature. Technological changes occur very fast. A rigid control system would 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.
- 4. 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.
- 5. Integration.** 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.
- 6. 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

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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.

- 7. Strategic placement.** Effective controls should be placed and emphasized 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.
- 8. 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 percent of maximum inventory at hand, then the computer will signal for replenishment for such items.
- 9. 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.

### Behavioural Implications of Control

Managers must recognize several behavioural implications in the process of control and its implementation. Although an effective control system should aid in employee motivation, it can also have negative effects on employee morale and performance. These negative effects can be seen in situations where managers exert excessive control over other people and their activities. This can be considered as misuse of power by the employees and this in turn would negatively affect their morale. Accordingly, control system should be made as fair and as meaningful as possible and must be clearly communicated to all employees. It will be easier for the employees to accept control if they had participated in the formulation of the control system and process of implementation. In addition, timely feedback and objective and realistic appraisal will get positive worker response. The control system and performance evaluation must be consistent with organizational goals, policies and culture. A performance appraisal based only upon departmental variables, such as output or percentage of waste may induce workers to give less importance to such organizational goals as safety, equipment maintenance and so on. Hence, a cohesion of all aspects is necessary for an effective control system.

**Some of the behavioural implications of control are as follows:**

1. Control affects individual freedom. Hence, it is common for individuals to resist certain controls if such controls put constraints on their freedom.
2. Control carries certain status and power implications. For example, a quality control inspector may carry more power than a line supervisor and this may be resented.
3. When controls are based upon subjective and personal judgements as against quantified performance, standards and appraisals, these may create interpersonal or intergroup conflicts within the organization.
4. Excessive number of controls may limit flexibility and creativity. This may lead to low levels of employee satisfaction and personal development.
5. Controls may influence the generation of invalid and inaccurate information. For example, if the top management habitually reduces budget requests when reviewing them (a control activity), then the lower management, when proposing a new budget or a new project may overstate the cost of resources needed. Similarly, managers may set objectives lower than what are attainable so that a higher output will look better at performance appraisal time.
6. Controls can be resented by employees if they have no control over the situation. For example, if a professor's performance is appraised over the number of publication of books and research articles, but he is not afforded the freedom of time to do so because of heavy teaching loads and excessive committee work, then it can result in frustration which may be detrimental to the entire control system. Similarly, a manager will become highly frustrated if his performance evaluation is based upon profits achieved by his department but he does not have the authority and control to make operational changes such as hiring and firing of workers.
7. The control system must be synchronized to create a balance among all affecting and inter-connected variables. The standards should complement each other and not contradict each other. For example, a control system which emphasizes increased sales as well as reduction in advertising expenditure at the same time may seem contradictory to the marketing manager and thus may be frustrating for him.

**NOTES****Preventive Control**

Preventive controls identify and prevent any departure from the norms before they occur. It focuses on human, material, and financial resources within the organization. This method aims to prevent occurrence of errors, and reduce the chances of fraud. Preventive control improves the accuracy and efficiency of accounting operations and financial reporting.

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Before implementing preventive internal controls, it is imperative to ascertain the goals and objectives of the organization. It can start with determining what information to collect and consider the legal aspects.

Examples of some preventive control activities:

- Separation of duties
- Proper authorization to prevent improper use of organizational resources
- Standardized forms
- Physical control over assets
- Computer passwords
- Computerized techniques such as transaction limits and system edits

**Check Your Progress**

5. List one behavioural implication of control.
6. What do preventative controls focus on?

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**9.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS**

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1. Planning involves the establishment of organization objectives and the development of strategies, while controlling establishes standards of performance and compares actual results with the planned results to determine whether operations are being performed according to plans.
2. Negative deviations are those that have negative repercussions as a result 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 levels.
3. The traditional control techniques can be further classified into:
  - (i) Budgetary Control
  - (ii) Non-Budgetary Control
4. Management audit can be defined as an independent and critical evaluation of the total managerial process.
5. Control affects individual freedom. Hence, it is common for individuals to resist certain controls if such controls put constraints on their freedom
6. Preventive controls identify and prevent any departure from the norms before they occur. It focuses on human, material, and financial resources within the organization.

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## 9.6 SUMMARY

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- 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.
- Controls at every level focus on inputs, processes and outputs. It is very important to have effective controls at each stage.
- There are basically four types of controls, each type being determined primarily by the time period in which the control is applied in relation to the operation being performed.
- 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.
- There are several types of control techniques implemented for effective management of the organisation. The techniques range from traditional to modern ways of managerial control. These techniques have their own advantages and disadvantages but ultimately provide some guidance to effective controlling.

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## 9.7 KEY WORDS

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- **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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## 9.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### 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.

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## 9.9 FURTHER READINGS

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# UNIT 10 STRATEGIC MANAGEMENT

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## NOTES

### Structure

- 10.0 Introduction
- 10.1 Objectives
- 10.2 Definition, Classes of Decision, Levels of Decision, Strategy
- 10.3 Benefits and Relevance of Strategic Management
- 10.4 Growing Relevance of Strategic Management in India
- 10.5 Role of Different Strategists
- 10.6 Answers to Check Your Progress Questions
- 10.7 Summary
- 10.8 Key Words
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## 10.0 INTRODUCTION

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This unit discusses strategic management. Strategic management is defined as the analysis, decisions and actions an organization undertakes in order to create and sustain competitive advantages. This definition consists of two elements that form the basis of strategic management:

- (i) Strategic managers are involved in analyses, decisions and actions on a continuous basis. Analysis means analysing the strategic vision, mission and goals of the organization and analysing the internal and external environment of such organizations. Next, strategic managers must make decisions regarding how to best gain a competitive edge; these decisions must be translated into actions.
- (ii) These decisions and actions must be directed towards sustaining competitive advantages.

Hence, strategic management tells us why some companies outperform others.

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## 10.1 OBJECTIVES

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

- Discuss the meaning of strategic management
- Describe the strategic management process
- Explain the role of top management in strategic management
- Discuss the advantages and disadvantages of management

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## 10.2 DEFINITION, CLASSES OF DECISION, LEVELS OF DECISION, STRATEGY

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The word 'strategy' stems from the Greek word *strategia*, which means an army general or a military commander. Battles are fought based on well-conceived strategies. Wars are reinforced by strategies. Similarly, businesses can be referred to as battles based on business strategies. The success of a business or its victory over another, in terms of capturing the market share, is dependent on its strategy.

In the 1960s, there was little competition for organizations. There were immense opportunities, and companies had to merely perform the function of setting long-term goals meeting those goals.

In the 1970s, external factors, such as the environment, were given more importance while designing strategies. Opportunities and resources became limited and attention was shifted to organizational growth through progressive changes and diversification.

In the 1980s, with emerging competition from the newly industrialized countries, the focus of strategic management and planning shifted to accomplishing and promoting a competitive edge. Businesses considered mergers and acquisitions to gain advantage of size over competition. Organizations formulated competitive strategies and attempted to provide more value to their customers in order to establish profitable and sustainable positions in their respective industries.

In the 1990s, markets and businesses became increasingly complicated. This was mainly attributed to advancement in technology, increase in global competition, changing tastes of consumers and fluctuations in exchange rates. Taking on the ever-changing business environment became the main focus of most organizations. Close and continuous monitoring of autonomous and indigenous conditions became definitive to strategic management.

The dynamic business environment of the twenty-first century, continual transformation and new developments became the formula for success. With progressing information technology and the advent of globalization, businesses need to be more flexible, need to work on adaptable processes and realize the significance of competitive advantage. Hence, it becomes integral to select superior functional strategies that add value to the business, the customers and the stakeholders.

### **Strategy as action exclusive of objective setting**

This provides a different meaning to the definition of strategy. Here strategy is seen as a method through which a firm deploys its principal resources, simultaneously reacting to its environment, to pursue its main objectives. With the same outlook, Michael Porter defines strategy as 'Creation of a unique and valued position involving a different set of activities. The company that is strategically

positioned performs different activities from rivals or performs similar activities in different ways.’

People, who follow Porter’s definition of strategy, believe that strategy is a unified, comprehensive and integrated plan with respect to the strategic advantages of a firm to the environmental challenges. After considering both definitions of strategy, one might understand strategy to be a management plan for achieving its goals and objectives. Strategy is inclusive of evaluation and determination of available alternative paths in lieu of a well-established mission where the best alternative needs to be implemented.

### **Nature of Strategy**

The nature of strategy can be defined by the following features:

- Strategy may be understood as the main course of action taken by an organization in relation to the environment to meet the objectives of the organization.
- Strategy involves a unique combination of external and internal factors, i.e., in order to meet the opportunities and threats provided by some external factors, internal factors are applied so that objectives are achieved.
- The basic idea of implementing a strategy involves a combination of actions with the common aim of achieving a particular goal and simultaneously dealing with certain problems that may arise during the course of action.
- As environment plays an important role in strategy formulation and implementation, it may also include contradictory actions on certain occasions. Whether this contradictory action is immediate or occurs after a certain period of time depends entirely upon the organization and its present situation. For instance, if a company closes down some of its businesses, is also involved in the expansion of new projects.
- The main focus of strategy is future-oriented and therefore strategic actions may be required for new situations which may have not occurred on a previous occasion.
- In order to implement a strategy efficiently in an organization, it is essential that the organization follows some system or norms.
- An overall framework for guiding organizational thinking and action are provided through strategy.
- An organization applies a strategy to define and communicate the organization’s objectives through a systematic method of policy formulation. Strategy involves a unified direction and efficient allocation of the organization’s resources. A well-developed strategy paves the way for managerial action and eventually provides an integrated approach for the organization in meeting environmental challenges.

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### Essence of Strategy

Strategy includes determination and evaluation of alternative paths to an established mission or objectives after which the best alternative is chosen. Strategy includes four important aspects, which are as follows:

- Long-term objectives
- Competitive Advantage
- Vector
- Synergy

### Process of Strategy

The process of strategy is a philosophical approach to business and is not limited to being a set of rules that an organization follows. The top-level management in any organization has the responsibility of implementing a strategy, therefore they need to think strategically and then apply that thought to a process. The process of strategy will be most conducive with each and every member of the organization is able to completely understand the objective and functioning of the strategy. The process of strategy undergoes five stages, which are as follows:

**(i) Goal-Setting:** An organization sets its goals to bring more clarity to the business vision. Under goal setting, three key factors are identified and they are:

- Long-term and short-term objectives need to be defined
- Identify the process that will be used to achieve organizational objectives
- Strategy needs to be customized, where each employee is given a task according to capability

It is essential for an organization to form goals in a detailed and realistic manner so that they are in tandem with the values of the organization's vision. The final step in goal-setting involves a written mission statement which also communicates the organizational goals to the shareholders and staff.

**(ii) Analysis:** The analysis stage is key to strategy as the information collected in this stage is also useful to the next two stages, which are strategy formulation and strategy implementation. During this stage, every organization should collect as much reliable and useful data to achieve organizational vision. The main aim of analysis is to understand business needs as a sustainable entity along with strategic direction and identifying initiatives that help in organizational growth. The organization needs to examine internal and external issues which may affect the organizational goals and objectives. At this point, the organization needs to identify its strengths and weaknesses along with the possible threats and opportunities that may occur.

- (iii) **Strategy Formulation:** First and foremost, in this stage the information acquired from analysis needs to be researched and understood. Once the organization understands its position in relation to its resources and whether these resources would be sufficient to achieve the organizational goals and objectives, then the organization needs to identify the areas where business may require external resources. Issues faced by the organization need to be prioritized according to its affects on success. After issues are prioritized then finally the strategy is formulated. Since business and economic situations are fluid, it is very important to develop alternative approaches that target each step of the plan.
- (iv) **Strategy Implementation:** The implementation of a strategy is very critical to the success of a business venture. The strategy implementation stage is also the action stage of strategic management process. In case the applied strategy does not function with the current structure of business then a new strategy needs to be applied. Each and every employee of the company needs to be aware of the implemented strategy so they can be clear of what is expected from them and they may understand their responsibilities and duties and their role in accomplishing organizational goals. In addition, an organization also needs to ensure that the required resources and funding for this business venture needs to be secured at this stage. The strategy is ready to be implemented when the required funding is available and employees are ready.
- (v) **Evaluation and Control:** The final stage of the strategy process. In this stage, the strategy is evaluated and control actions such as performance measurement, review of internal and external issues and corrective actions, if required take place. A successful evaluation of a strategy is possible by defining the parameters that need to be measured. These parameters should be able to mirror the goals set in stage 1. Progress can be determined by measuring the final results with the original plan. The constant monitoring of internal and external issues will also help the organization to react to substantial changes that may occur in the business environment. If the strategy is not steering the organization towards its goals, then corrective actions are required. In case the applied corrective actions are not producing the desired results, then start the strategic management process again. The process of strategy needs to be repeated as on many occasions it has been seen that internal and external issues constantly evolve and any data gathered at this stage should be retained to assist with future strategies.

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### Work Done in the Field of Strategy

The concept of strategy was pioneered by Igor Ansoff and developed further by Henry Mintzberg and Michael Porter.

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### **Ansoff's strategic success paradigm**

Igor Ansoff promoted the systematic study of strategic management. During extensive research, he discovered that American businesses that were acquired on the basis of a realistic and far-sighted strategy were more successful than those acquisitions that were done on the basis of immediate or transient benefits. The strategic success paradigm points out the conditions that lead to optimum profits. According to this paradigm:

- (a) There is no universal formula for success that can be applied to all businesses.
- (b) Depending on the turbulence in the environment, a business can decide on the degree of aggressiveness of the strategy in order to achieve optimum success.
- (c) The success strategies for different firms depend on the level of changes, instability or agitation in the environment.
- (d) The success of a firm depends on the political, psychological, cognitive, anthropological and sociological variables. These variables, together, form the internal capability variables.

Based on thorough empirical testing for over a decade, Ansoff translated his success paradigm into a diagnostic instrument named 'Strategic Readiness Diagnosis'. Ansoff's contribution to the development of the concept of strategic management developed/transformed into books entitled *Corporate Strategy* and *An Analytical Approach to Business Policy for Growth and Expectation*. In the former book, published in 1965, he discusses strategic planning, whereas in the latter book, he introduces the concept of synergy and 'gap analysis'.

### **Henry Mintzberg: Strategy as a craft**

Henry Mintzberg contributed to the development of strategic management by adding a new dimension to the field. His perceptive view of the field of strategic management incorporated the manager's personal opinion. His view point challenged the views of other rational thinkers of his time. The task of formulating a strategy was considered by him as immensely calculative, critical and sensitive. Propagating a more humane approach to the formulation and implementation of strategies, he came up with the term 'crafting strategy' for the same. Accordingly, an ideal organizational structure would be one with (i) a simple organizational structure, (ii) machine and professional bureaucracy, (iii) adhocracy, and (iv) a divisionalized form.

### **Peter Drucker's contribution**

Peter Drucker propagated the practice of using formal strategic thinking in management decisions after World War II. He argued that management translated into relevant action, which aimed to achieve desired results. He was of the opinion that management was much more than mere passive, adaptive behaviour.

The concept of management by objectives, popularly known as MBO, was introduced by Drucker in 1954. Before MBO came into existence, managers were more involved with processes than with goals. MBO caused them to shift their focus from processes to goals. Drucker described MBO as not only a management technique but also a management philosophy. The basic assumptions of managing were shifted from exercising control to self-control.

### **Michael Porter: Strategy and competitive advantage**

Michael Porter recommended the use of his 'Five Forces Model' to study the different elements that comprise strategic management, such as the conditions of company operations. Generic strategies such as cost leadership, focus and cost differentiation were introduced by Michael Porter with the aim to decrease the uncertainties of the competitive environment.

Porter authored the following books:

- (i) *Competitive Strategy* (1980)
- (ii) *The Competitive Advantage of Nations* (1990)

In his books, Porter discusses the issues of sustaining competitive advantage, economic development and competitiveness.

Porter's 'Five Forces Model' states that in any industry, competition is dependent on the following five forces:

- (i) The threat posed by new entrants;
- (ii) Suppliers' bargaining power;
- (iii) The threat posed by substitute products;
- (iv) The existing rivalry between current players; and
- (v) Buyers' or customers' bargaining power

To survive and succeed in this volatile business environment, it becomes integral for an organization to understand how these five forces operate and influence industry.

### **Characteristics of Strategic Management**

Strategic decisions are decisions that are critical to an organization in the long term. Therefore, they have the following essential characteristics:

- They are concerned with the scope of an organization in the long term
- They are aimed at achieving an edge over competition
- They attempt to ensure that the organizational resources and activities are in harmony with the environment they confront.
- They call for optimum utilization of resources and creation of opportunities.
- They usually result in resource changes and are complicated in nature.
- They often need to be made in uncertain situations.

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- They involve a unified approach to managing the organization

A set of critical decisions and actions that results in the creation and implementation of strategies aimed at the achievement of organizational goals can be called strategic management. The critical decisions that strategic management encompasses, are concerned with all the aspects of the organization affecting its performance and existence in the long run, like products, resources, organizational structure, etc. The end result of strategic management can be seen in the form of new products, new markets, adoption of the latest technologies and skills.

### **Dimensions of Strategic Decisions**

There are six typical dimensions that are identifiable in strategic issues, which:

- (a) Require decisions to be made by top management
- (b) Involve the allocation of a large amount of resources of the company
- (c) Have a significant impact on the prosperity of a firm in the long run
- (d) Are future-oriented
- (e) Have multifunctional or multi-business consequences
- (f) Make it necessary to consider external environmental factors

Like strategy, strategic management also has been defined differently by different authors and strategy analysts. Three definitions of strategic management have been mentioned below, which together give completeness to the concept of strategic management.

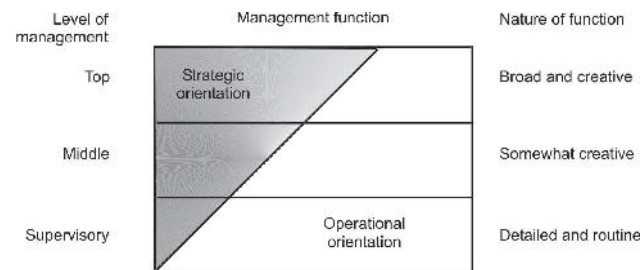
‘Strategic management is that set of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives.’

‘Strategic management is defined as the set of decisions and actions in the formulation and implementation of strategies designed to achieve the objectives of an organization’

‘Strategic management is primarily concerned with relating the organization to its environment, formulating strategies to adapt to that environment, and assuming that implementation of strategies takes place.’

All management functions of a company can be broadly classified into two categories: strategic and operational. Strategic functions are performed more at the senior and top management level whereas operational functions are discharged more by middle and lower management levels. In other words, it can be said that as the level of management moves up, managers perform more strategic functions and less operational functions. Moreover, in any company, operational functions constitute a higher percentage of total management functions than strategic functions (Fig. 10.1).





**Fig. 10.1** Nature of Functions at Different Management Levels

Operational functions or operational management, as the name implies, is concerned with routine matters of day-to-day management, such as efficient production of goods, management of a sales team or sales force and monitoring of financial performance. Strategic management would be concerned with, say, devising or innovating methods for improving financial performance of the company.

Strategic management consists of three distinct steps or stages. These are:

(i) strategy formulation, (ii) strategy implementation, and (iii) evaluation and control. In sequential order, these three stages may be shown as:

Strategy formulation → Strategy implementation → Evaluation and control

Some consider these three stages to be the basic elements of strategic management. These three elements can be considered individually, but they are closely interrelated and must be integrated in the total management process.

### Strategic planning and strategic management

Plan or planning should precede action. Similarly strategic planning should precede strategic management. Strategic planning (also called corporate planning) provides the framework (some call it a tool) for all major decisions of an enterprise—decisions on products, markets, investments and organizational structure. In a successful organization, strategic planning or strategic planning division acts as the nerve centre of business opportunities and growth. It also acts as a restraint or defence mechanism that helps an organization foresee and avoid major mistakes in product, market, or investment decisions.

A *strategic plan*, also called a corporate plan or perspective plan, is a *blueprint* or *document* that incorporates details regarding different elements of strategic management. This includes vision/mission, goals, organizational appraisal, environmental analysis, resource allocation and the manner in which an organization proposes to put strategies into action.

The concept and role of strategic planning would be clear if we mention the major concern areas of strategic planning in an organization. First, strategic planning is concerned with environment or rather the fit between the environment, the internal competencies and business(es) of a company. Second, it is concerned with the portfolio of businesses a company should have. More specifically, it is concerned with changes—additions or deletions—in a company's product-market postures.

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Third, strategic planning is mostly concerned with the future or the long-term dynamics of an organization rather than its day-to-day tasks or operations. Fourth, strategic planning is concerned with growth—direction, pattern and timing of growth. Fifth, strategy is the concern of strategic planning. Growth priorities and choice of corporate strategy are also its concerns. Finally, strategic planning is intended to suggest to an organization measures or capabilities required to face uncertainties to the extent possible.

All large organizations formulate strategic plans. In 1997, All India Management Association (AIMA) conducted a study to find out about business plans, strategies, techniques and tools adopted by various Indian companies. The study results were published in *Business Today*. The study showed that 56 per cent of the total number of companies (160) surveyed had published strategy. In terms of planning horizon, the period covered in the strategic plan was less than 3 years by 44 per cent of the companies, 3–5 years by 40 per cent of the companies and more than 5 years by 16 per cent of the companies. In terms of company size, bigger companies planned for a longer period. For 45 per cent of the large companies, the planning period was more than 5 years, but for 70 per cent of the small companies, the period was less than 3 years.

A characteristic feature of the starting plans of many large Indian companies is that the long-term planning horizons of these companies generally coincide with the national planning period. This means that many of these companies follow a five-year planning period, which synchronizes with the five-year plans of the country. This is particularly true for public sector enterprises in the core sector.

Once a strategic plan is prepared, the same is submitted to the senior management/top management personnel for their consideration and approval. Strategic planning and strategic management are intimately related to each other. Where strategic planning ends, strategic management takes over; however, both are complementary to each other. They form vital links in an integrated chain in corporate management. Both are continuous processes. Strategic management may be more continuous because it involves implementation and monitoring also.

### Check Your Progress

1. Define strategic management.
2. What are strategic decisions?
3. What is a strategic plan?

## 10.3 BENEFITS AND RELEVANCE OF STRATEGIC MANAGEMENT

Let us begin by studying the advantages of strategic management.

## Advantages of strategic management

The process of strategic management has become significant because of several other benefits:

- **Financial benefits:** The impact of strategic management is primarily that of improved financial performance in terms of profit. The growth of firms with a developed strategic management system has a major impact on both planning and implementation of future strategies.
- **Improved ability to prevent problems:** By encouraging subordinate attention to management considerations, an improved ability to prevent problems can be achieved.

When employees who are aware of the need of strategic management assist managers in their monitoring and forecasting role, they can facilitate the improvement of problem-prevention tactics.

- **Improved quality of strategic decisions through group interaction:** The process of group interaction for decision making helps in generating alternative strategies. It also helps in better screening of options due to specialized perspectives of group members. Thus, the best alternatives are selected and pursued effectively.
- **Better employee incentive:** Participation of employees or their representatives in strategy formulation leads to a better understanding of the priorities. Moreover, they appreciate the link between productivity on their part and its subsequent rewards that is inbuilt in a strategic plan. Thus, goal-directed behaviour is likely to follow the incentives.
- **Reduced gaps and overlaps in activities:** With strategy formulation, there is a better understanding of the responsibilities of individuals and groups. This helps in role identification by the employees, which reduces the gaps and overlaps in the activities of groups and individuals.
- **Lesser reluctance to change:** Another benefit of strategic management is the acceptability of change on part of the employees of the organization. This is because strategic management is an all-inclusive process, which creates greater understanding of the reason for choosing a particular option and the limits of the other available alternatives. This removes the feeling of uncertainty related to change, and reluctance to change is reduced.

## Disadvantages of strategic management

Besides the advantages, there are certain negative effects of strategic management worth noting:

- **A costly exercise:** Strategic management is a costly exercise in terms of the time that needs to be devoted to it by managers. Managers cannot ignore their operational responsibilities, as this will lead to an irreparable loss to the organization. Preventive measures, however, can be taken in this

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regard. Managerial activities can be scheduled such that adequate time is devoted to strategic work without deducting any time that managers have to devote to normal operations.

- **Sense of frustration:** Sometimes, the participant subordinates may get frustrated due to their unfulfilled expectations. This can happen, for example, when they expect that the particular strategy being adopted will be the one they prefer and they would accordingly get the associated rewards. However, this may not actually happen, as strategy selection is a general process.
- **Evading responsibility:** One more disadvantage of strategic management is the risk of avoiding responsibility for the information that has been provided in the decision-making process and the conclusions drawn thereby. This may happen if those associated with the formulation of strategy are not involved thoroughly with the implementation of the strategy.

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### 10.4 GROWING RELEVANCE OF STRATEGIC MANAGEMENT IN INDIA

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Indian companies operated in a controlled environment from independence till the end of the 1980s. As a result, they had to pay little attention to corporate policy or planning.

Due to the limited competition and limited strategic manoeuvrability under the controlled regime, strategic management did not have much relevance in India prior to the economic liberalization ushered in India in 1991. Things have changed since then, making strategic management of great relevance.

Many companies have embraced strategic management. A number of companies have reformulated their missions and objectives. Portfolio strategies have undergone changes. Organizational restructuring has become common. Expanding opportunities and growing competition have been making companies adopt corporate and competitive strategies. To some extent, there has even been an over popularity of the concept that it has also become a fashion to speak of vision, mission, corporate strategy and the like.

The following environmental changes have increased the relevance of strategic management:

1. The abolition of public sector monopoly or dominance in a number of industries has enormously increased business opportunities. Many of them are high-tech and heavy-investment sectors, which make strategic management all the more relevant.
2. Delicensing has removed not only an important entry and growth barrier but also a consumption barrier. In the past, because of non-production/limited production and import restrictions, many goods were non-available or had limited availability (in quantity and/or variety).

3. The liberalization of policy towards foreign capital, technology and imports and the accessing of foreign capital markets provide companies with the chance of enhancing their strength to exploit the opportunities.
4. Liberalization in other countries, expanding foreign markets, growing competition in India, the policy environment, etc. increase the importance of foreign markets and strategic management.

Liberalization, at the same time, has generated serious threats to many firms. The industrial policy liberalizations, import liberalizations and MRTPA liberalizations have opened floodgates of competition, posing surging threats to many existing businesses. Companies that have enjoyed the comforts of protection of the restrictive regime are now facing growing competition. Many industries are characterized by increasing competition in all its dimensions: inter-firm rivalry, threat of potential competition, substitutes and growing power of buyers and suppliers.

In short, in the new environment, the old equations are not valid. Companies have to adopt strategies for establishing effective organization environment fit in the changing environment. Fundamental questions that a company should ask itself include the following:

- What are the opportunities and threats posed by the emerging environment?
- What are our strengths and weaknesses?
- How can we increase our strengths and minimize our weaknesses?

The changes ushered due to liberalization have forced companies to chart new courses. It has not been easy. Many organizations have hit the dust in this fast and without precedent changing environment. At the same time, some companies have reaped a rich harvest by adopting the changes to their advantage. These openly visible results have made corporate planning an important subject requiring constant attention by the management.

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## 10.5 ROLE OF DIFFERENT STRATEGISTS

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The fact that the strategic management process involves strategy making at the corporate level, SBU level and functional level implies that managers at different levels—top, senior and middle—participate in the strategic planning and management process. In addition to managers, the board of directors also plays a significant role. Many times, management consultants also play important roles in the strategic planning and management of a company. Hence, there may be five major participants in the strategic management process of a company, although they may play quite different roles. The five participants are listed as follows:

1. Board of directors
2. Chief Executive Officer (CEO)
3. Corporate planning staff

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4. Other managers
5. Consultants

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### Role of Board of Directors

In any organizational hierarchy, the board of directors is the apex/highest-level body. The board is the final authority in managing the affairs of a company, strategic or non-strategic. The members of the board perform these functions according to or subject to the memorandum of association and articles of association of the company. The role of a board member depends on his (her) degree of involvement in the strategic process; and the degree of involvement of a member depends partly on the management philosophy of a company and partly on the interest a particular board member takes in the affairs of the company. The levels of involvement and, therefore, the roles of the board members can vary widely. Wheelan and Hunger have analysed the role of board members in terms of a continuum as shown in Table 10.1.

**Table 10.1** Degree of Involvement of Board Members in Strategic Management

Low			High		
<i>(Passive/phantom)</i>	<i>Rubber stamp</i>	<i>Minimal review</i>	<i>Normal participation</i>	<i>Active participation</i>	<i>(Active/catalyst)</i>
Never knows what to do	Permits executives to make all decisions and approves what they decide	Reviews selected issues brought to him/her	Involved to a limited degree to review management's performance, decisions or programmes	Questions, reviews and makes final decisions on mission, objectives, strategy, and policies; performs fiscal and management audit	Takes the leading role in establishing and modifying mission, objectives, strategy and policies; has very active strategy committee

Source: T L Wheelan, and J D Hunger (1983), 49

Given the progressive management philosophy of a company, professional boards can play very effective roles in the strategic management process. Boards of Hindustan Unilever, L&T, ITC, Tata Motors and Tata Steel, for example, are quite effective and take active part in the strategy-making processes of these companies. They participate in setting and reviewing corporate objectives, formulation of long-term strategies, examination and review of proposals for new investment, appointment of chief executives and other key personnel, etc. According to a survey conducted by AIMS Research on the practice of boards of directors and their roles in company management, the best five boards in India are those of Hindustan Unilever, Tata Motors, Bajaj Auto, HDFC and L&T.

On the other extreme, as shown in Table 10.1, there are boards or board members who play only passive roles. In all such cases, strategic decisions are taken mostly outside the board. Strategy and decision makers may be a powerful

family group or a powerful CEO or the top management committee or overseas parent company in the case of subsidiaries of multinationals or bureaucrats or ministers in the case of public sector companies.

Between the passive boards and the extraordinarily participative ones, there are boards which are more common in companies. These boards play a balancing role between the strategy-making process in the companies and the shareholders. Major strategic functions performed by these boards are as follows:

- Approval of the corporate budget and resource allocation for strategic investments
- Periodic review of the strategic planning process
- Monitoring the chief executive's role in the strategic management process
- Triggering discussion on growth possibilities and alternatives
- Guiding the chief executive in formulating organization-level strategies
- Reviewing strategy implementation with respect to results or profitability

### **Role of Chief Executive**

The chief executive plays the most important role in the strategic management process of a company. Major management functions of a chief executive, however, can be broadly divided into two categories: strategic and non-strategic. Every chief executive should clearly distinguish between his/her strategic functions and non-strategic or operational functions so that he can appropriately allocate his time and concentrate more on strategic functions.

Effectiveness of the strategic role of the chief executive determines the direction and pattern of growth of most of the companies. An effective chief executive is a practical/realistic visionary—'a dreamer who also does'. He becomes a catalyst in the strategic management process and mobilizes resources and managers and supports the board to accelerate the growth process. Effective chief executives are successful leaders; they lead by example and charter a new growth trajectory for the company.

### **Role of Corporate Planning Staff**

Every chief executive needs the support of his corporate planning staff. With increasing volatility of the competitive environment, the strategic planning and management process is becoming more complex.

Moreover, with the introduction of new tools, techniques and planning models, the planning system is also becoming more technical and specialized. Therefore, almost all large companies and multinationals have created a separate corporate planning division or unit. This division or unit is equipped with specialized planning staff who form the nucleus of strategic planning activities of a company. In many companies, this division or unit functions directly under the charge of the chief executive.

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The corporate planning division performs various functions, mostly of a strategic nature. Major functions of the corporate planning staff may be summarized as follows:

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- (a) Assisting the chief executive in developing and formalizing fundamental concepts or visions about organizational growth and diversification.
- (b) Scanning the environment and identifying new business opportunities.
- (c) Analysing cost benefits of alternative investment opportunities and allocating resources to various activities/projects.
- (d) Integrating SBU plans (and, sometimes, also functional plans) into corporate plans.
- (e) Monitoring progress of strategic plans at corporate level, SBU level and functional levels.
- (f) Undertaking mid-term review of plans and strategies and suggesting changes, if or as necessary.
- (g) Evaluating plan performance—measuring the degree of success (or failure) of strategic plans and reporting to the chief executive for any necessary action.

### **Role of Senior Managers**

Not only the corporate planning staff but also some other managers, particularly the senior managers, play an important role in the strategic management process of a company. The senior managers include SBU heads and functional heads. Some of these heads are at the level of directors who are represented on the board. The senior managers are the members of different management committees, including top management committees which are involved in strategic planning and management. Some of these committees consider and evaluate proposals for new investment, restructuring, diversification, etc. In all these committees, some corporate planning staff are also represented.

ITC has constituted a Corporate Management Committee (CMC), which consists of five full-time directors and five senior managers besides company secretary. MRF has divided its senior managers into five strategic groups dealing with products and markets, environment, technology, resources and manpower, respectively. Each group, headed by a leader, prepares position papers (which includes initiation of strategy proposals, feedback and implementation reports) for the board. Voltas undertakes strategy implementation through a Corporate Executive Committee (CEC) headed by the President (Chief Executive) and consisting of Senior VPs and VPs of different functional areas.

### **Role of Consultants**

Management consultants can play very useful roles in the strategic planning process of a company. Consultants render services in different functional areas of management, including the strategic planning and management process. In



companies with no separate planning division or unit, consultants can fill that gap. They can undertake planning and strategy exercises as and when the company management feels the need for such exercises or consultancies. Even in companies with a corporate planning division/unit, consultants may provide specialized inputs or insights into identified management or strategy areas. Top strategic consultants like McKinsey & Company use or develop latest tools, techniques or models to work out solutions to specific strategic management problems or issues—be it productivity, cost efficiency, restructuring, long-term growth or diversification. Consultants bring with them diversified skills (most of the consulting companies are multidisciplinary) and experience from various companies which may not be available internally in a single company. This is the reason why even large multinational companies hire consultants for achieving their goals or objectives.

Consultants sometimes have a difficult or delicate role to play. In many companies, a situation develops when the chief executive or the top management needs to bank upon the support of an external agency like a consultant to push through a strategic change in the organizational structure or management system of the company. It may be for growth and development or downsizing. In both cases, many companies face internal resistance to change. The resistance is more if it is downsizing even when it is required for turning around a company. This happens particularly in public sector companies where implementing change is always difficult. Consultants are engaged to support or substantiate the company's point of view (in the form of their recommendations) so that change is more easily acceptable to the internal stakeholders of the company. Consultants' role may become delicate and, sometimes, tricky in such cases, and they should carefully weigh the ethical implication of their participation.

#### **Check Your Progress**

4. What is the main impact of strategic management?
5. What type of managers participate in the strategic management process?
6. Who plays the most important role in the strategic management process in a company?

### **10.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS**

1. Strategic management is primarily concerned with relating the organization to its environment, formulating strategies to adapt to that environment, and assuming that implementation of strategies takes place.
2. Strategic decisions are decisions that are critical to an organization in the long-term.
3. A strategic plan, also called a corporate plan or perspective plan, is a blueprint or document that incorporates details regarding different elements of strategic management.

## **NOTES**

## NOTES

4. The impact of strategic management is primarily that of improved financial performance in terms of profit.
5. The fact that the strategic management process involves strategy making at the corporate level, SBU level and functional level implies that managers at different levels—top, senior and middle—participate in the strategic planning and management process.
6. The chief executive plays the most important role in the strategic management process of a company.

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### 10.7 SUMMARY

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- Strategy may be understood as the main course of action taken by an organization in relation to the environment to meet the objectives of the organization.
- The process of strategy is a philosophical approach to business and is not limited to being a set of rules that an organization follows.
- The concept of strategy was pioneered by Igor Ansoff and developed further by Henry Mintzberg and Michael Porter.
- Strategic management is that set of decisions and actions which leads to the development of an effective strategy or strategies designed to achieve corporate objectives.
- Strategic management consists of three distinct steps or stages. These are (i) strategy formulation, (ii) strategy implementation and (iii) evaluation and control.
- The board of directors is the final authority in managing the affairs of a company, strategic or non-strategic. They perform these functions according to or subject to the memorandum of association and articles of association of the company.
- Effectiveness of the strategic role of the chief executive determines the direction and pattern of growth of most of the companies. An effective chief executive is a practical/realistic visionary who catalyzes the strategic management process, mobilizes resources and managers and supports the board to accelerate the growth process.
- Consultants bring with them diversified skills (most of the consulting companies are multidisciplinary) and experience from various companies, which may not be available internally in a single company. This is the reason why even large multinational companies hire consultants for achieving their goals or objectives.

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### 10.8 KEY WORDS

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- **Strategic management:** It is a management activity involving decision making, based on various analyses, and taking relevant action aimed at achieving long-term competitive advantages.

- **Strategy:** It means a channel or direction that an organization adopts with a view to changing its resources with the changing environment and modifying markets in a manner that will benefit the shareholders.
- **Strategic decisions:** It refers to decisions that are critical to an organization in the long term.
- **Corporate strategy:** It is the direction an organization takes with the objective of achieving business success in the long term.

## NOTES

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### 10.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. What is the nature of strategy?
2. List the advantages and disadvantages of strategic management.
3. What is the essence of strategy?
4. Write a short-note on the relevance of strategic management in India.

#### Long-Answer Questions

1. Discuss the process of strategy.
2. Examine the strategic management process in detail.
3. What is a corporate policy? Differentiate between policy and strategy. Discuss the features of corporate policy.
4. Examine the role, functions and skills of board and top management in strategic management.

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### 10.10 FURTHER READINGS

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- Thomson and Strickland. 1997. *Strategic Management: Concepts and Cases*. Chicago, IL Irwin Professional Publishing.
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NOTES

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# UNIT 11 OVERVIEW OF SPAN OF MANAGEMENT AND DEPARTMENTALISATION

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## Structure

- 11.0 Introduction
- 11.1 Objectives
- 11.2 Span of Management
  - 11.2.1 Narrow and Wide Span Structure
  - 11.2.2 Factors Affecting Span of Management
  - 11.2.3 Limitations of Span of Management
- 11.3 Answers to Check Your Progress Questions
- 11.4 Summary
- 11.5 Key Words
- 11.6 Self Assessment Questions and Exercises
- 11.7 Further Readings

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## 11.0 INTRODUCTION

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In the previous unit, we discussed strategic management. In this unit, we will discuss span of management, decentralization and departmentalization. We have already discussed these topics in Unit 4 and 5. Therefore, we will touch upon the topic briefly in the unit.

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## 11.1 OBJECTIVES

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

- Discuss span of management and its limitations
- Explain responsibility, authority and decentralization

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## 11.2 SPAN OF MANAGEMENT

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As you know, the number of subordinates a manager can effectively manage is known as span of management. The quality of supervision becomes poor and coordination becomes weak when large number of subordinates work under a single manager. However, if the number of subordinates is too small, then the managerial abilities of the manager may not be fully utilized. A balance between these two extremes needs to be maintained in order to use full potential of the manager. No one can effectively supervise an infinite number of subordinates. A manager can pay attention only to a limited number of subordinates. 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.

The number of subordinates that can effectively be managed for supervision and delegation of authority would be finite and depend upon a number of factors. Some of these factors are:

- Similarity of functions
- Complexity of functions
- Geographical closeness of employees
- Direction and coordination
- Capacity of subordinates
- The working staff of the manager

## NOTES

### 11.2.1 Narrow and Wide Span Structure

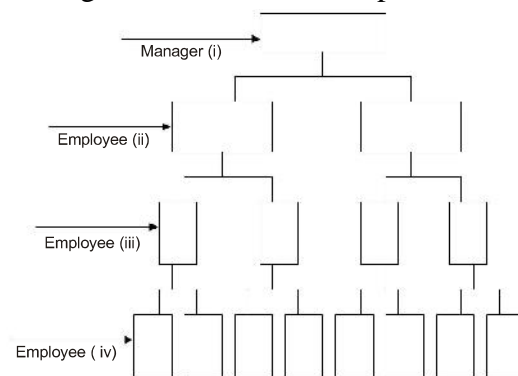
Organization levels exist because there is a limit to the number of persons a manager can supervise effectively. Ever-growing organizations must add new levels to their structure. Determination of appropriate span of control to suit the levels of organization is very important because the span of control affects the efficient use of superior and subordinate relationships for obtaining better performance. There are two types of span of control structures.

- **Narrow span:** It results in under-utilization of manager's services and over-controlling of subordinates.
- **Wide span:** It may lead to over-straining of managers and lack of effective control over subordinates.

Span of control has an important bearing on the shape of organization structure. While a narrow span results in a 'tall' organization, a wide span leads to a 'flat' structure. This can be effectively depicted through diagrams (A and B).

#### Narrow span structure

Figure 11.1 shows the organization with narrow span structure.



**Fig. 11.1** Narrow Span Structure

## NOTES

Narrow span refers to the existence of too many levels in an organization. The following are the advantages of the narrow span structure:

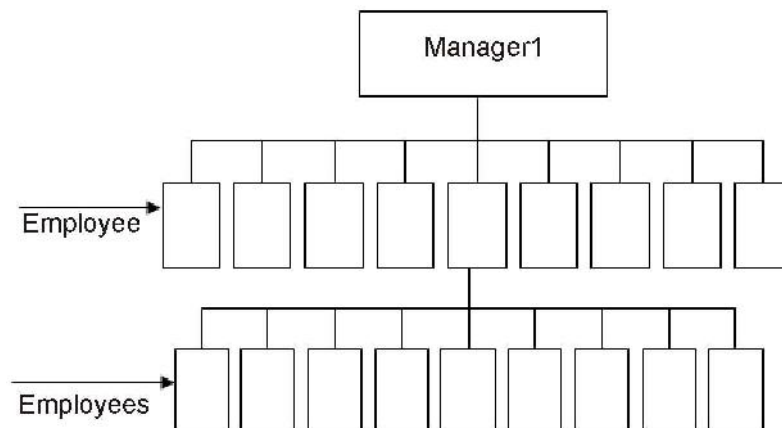
- The main advantage of narrow span is that effective leadership and control can be directly exercised on subordinates.
- Superior can easily communicate and effectively coordinate the efforts of his subordinates since their number is small. Direct contact, close supervision and tight control can help improve the performance pattern.

Organizations with narrow spans suffer from several limitations. The following are the limitations of a narrow span structure:

- Too many levels delay two-way communication when a message has to pass through different levels. Its effectiveness may be reduced.
- Large number of managers are required which results in additional salaries and high cost to management.
- A tall structure may have adverse impact over morale because of the absence of close link between a top executive and bottom worker.

### Wide span structure

Figure 11.2 shows the organization with a wide span structure.



**Fig. 11.2** Organization with Wide Span Structure

To overcome these difficulties of narrow span (tall structure), some of the modern companies have adopted wide span structures. Wide span prevails in flat organizations. Here, one can find fewer levels of authority. The following are the advantages of the wide span structure:

- It indicates that the chain of command is short. Because of this, communication tends to be quicker and more effective.
- This system allows delegation of authority and development of subordinates.
- Subordinates feel more autonomous and independent in wide span organizational structures.

Despite these advantages, flat organizations also have some disadvantages. Flat structure makes supervision and control to be loose and less effective because a single executive may not have enough time and energy to supervise all subordinates. It is not at all suitable for large manufacturing organizations that have developed business with narrow span structure.

### **11.2.2 Factors Affecting Span of Management**

The following are the factors that affect the span of management:

- **Management policies:** Management policies have a great influence on span of control. If the policies are clear and comprehensive, this results in increase in the span of control. Clarity in plans, definiteness in fixing up responsibility and use of standing plans reduce the pressure of decision making by the top managers that increases the span control.
- **Nature of work:** If the nature of work is uniform, typical and ordinary, it can be effectively monitored and regulated through programmed decisions. As a result, this leads to increase in the span of control. At the top management level, the nature of the work is volatile and complex with high risk-decisions. That is why one can find limited span of control at the top level.
- **Line and staff relationships:** If a line manager receives adequate staff help, he can handle a high level of workload and can have a larger span of control. Existence of good superior and subordinate relationships based on faith and mutual confidence is an essential prerequisite to widen the span of control. On the other hand, if the superior is tactless in handling the relationships with the subordinates, he will have a limited span of control.
- **Quality of subordinates:** If the subordinates are experienced and well trained in challenges, then they need minimum supervision from the top managers. Hence, the quality of subordinates certainly improves the span of control.
- **Other factors:** The span of control in practice is also affected by other factors such as time availability, degree of decentralization and control practices. These factors are bound to have an impact over the size of span. Similarly, wider span of control may prevail when the work of the subordinates can be controlled through written reports.

### **11.2.3 Limitations of Span of Management**

The limitations of span of management are as follows:

1. Existence of too many levels is expensive because the organization has to bear the burden.
2. Too many levels (span) complicate the communication between the manager and its subordinates. Omissions and misinterpretations increase with wide spans.

## **NOTES**

## NOTES

3. Existence of too many levels and numerous departments create problems even in planning and control process. A well-defined plan loses clarity and coordination as it is passed to the lower and lower levels. In a similar way, control becomes difficult with too many managers.
4. Handling of superior subordinate relationships on smooth lines is a must for the success of any organization. Larger spans and too many managers may complicate the synchronized relationships between workers and management.
5. Division of activities among various departments and creation of hierarchical levels are not completely desirable as departmentalization is not an end for achieving effectiveness in organization.

### **Responsibility, Accountability and Decentralisation**

Unlike the span of management, the span of managerial responsibility depends on the extent to which employees require assistance and teaching. It can only be set by a study of the concrete situation. Managerial responsibility broadens as we move upward in the organization. Junior managers need the most assistance; their goals are least to define sharply, their performance least easy to measure concretely. However, senior managers, have supposedly learned how to do their job; and their goals can be defined as directly contributing to the business, their performance measured by the yardsticks of business results. Thus, the span of managerial responsibility is wider than the span of management.

Unlike responsibility, accountability is an assurance that an employee or a business will be evaluated on their performance or behaviour related to something for which they are responsible. While, corporate accountability entails being answerable to all an organization's stakeholders for all actions and results. Decentralization refers to a type of organizational structure in which everyday decisions and operations are delegated by the top level management to middle and lower-level managers within the firm, thereby allowing the top management to focus more on major decisions of a business.

#### **Check Your Progress**

1. Define span of management.
2. What is the main advantage of narrow span?
3. How do management policies influence the span of control?

### **11.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS**

1. The number of subordinates a manager can effectively manage is known as span of management.



2. The main advantage of narrow span is that effective leadership and control can be directly exercised on subordinates.
3. Management policies have a great influence on span of control. If the policies are clear and comprehensive, this results in increase in the span of control. Clarity in plans, definiteness in fixing up responsibility and use of standing plans reduce the pressure of decision making by the top managers that increases the span control.

## NOTES

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### 11.4 SUMMARY

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- The number of subordinates a manager can effectively manage is known as span of management.
- The quality of supervision becomes poor and coordination becomes weak when large number of subordinates work under a single manager.
- There are two types of span of control structures. These are narrow span and wide span.
- Management policies have a great influence on span of control. If the policies are clear and comprehensive, this results in increase in the span of control.
- If a line manager receives adequate staff help, he can handle a high level of workload and can have a larger span of control.
- Managerial responsibility broadens as we move upward in the organization. Junior managers need the most assistance; their goals are least to define sharply, their performance least easy to measure concretely.
- Unlike responsibility, accountability is an assurance that an employee or a business will be evaluated on their performance or behaviour related to something for which they are responsible.

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### 11.5 KEY WORDS

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- **Wide Span:** It refers to the existence of fewer levels of authority in an organization.
- **Accountability:** It refers to the fact of being responsible for what you do and able to give a satisfactory reason for it, or the degree to which this happens.
- **Responsibility:** It means the state or fact of having a duty to deal with something or of having control over someone.

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## 11.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

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### NOTES

#### Short-Answer Questions

1. What are the advantages and disadvantages of narrow span and wide span?
2. Write a short-note on responsibility and accountability.

#### Long-Answer Questions

1. Describe the concept of span of management.
2. Analyse the factors affecting span of management.

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## 11.7 FURTHER READINGS

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**BLOCK - IV**  
**BASIC COMPREHENSIVE GROWTH**  
**OF MANAGEMENT**

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*Process of Communication*

**NOTES**

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**UNIT 12 PROCESS OF**  
**COMMUNICATION**

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**Structure**

- 12.0 Introduction
- 12.1 Objectives
- 12.2 Communication Process
- 12.3 Forms of Communication
- 12.4 Barriers to Communication
  - 12.4.1 Overcoming Barriers
- 12.5 Answers to Check Your Progress Questions
- 12.6 Summary
- 12.7 Key Words
- 12.8 Self Assessment Questions and Exercises
- 12.9 Further Readings

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**12.0 INTRODUCTION**

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Communication is the modus operandi of social and commercial intercourse. It is communication which gets the world going. It is the lifeblood of any group or organization. The communication process encompasses men, women and children as individuals and also members of a group, society, community or organization. One cannot visualize a world where men and women do not communicate. Communication keeps the world going.

Communication is relevant not only to human beings, but also to other living beings. It is the most important link that connects all living organisms. Communication takes place not only among people, but also between people and animals and between animals. The dog owner, the horse rider, the ringmaster in the circus and the fortune-teller communicate with their animals and birds.

It is the ability of mankind to communicate across barriers and beyond boundaries that has ushered the progress of mankind. It is the ability of fostering speedy and effective communication around the world that has shrunk the world and made 'globalization' a reality. Communication has had a vital role to play in ensuring that people belonging to a particular country or a cultural or linguistic group interact with and relate to people belonging to other countries or cultural and linguistic groups.

## NOTES

Communication is at once the cause and consequence of a powerful world order. Development of varied and sophisticated means of communication over a period of time has brought human beings across the globe closer and has facilitated speedy and effective transmission of thoughts and ideas. The expanse or reach of communication, therefore, is worldwide and truly encompasses human life in all its facets and endeavours. It galvanizes action among individuals, organizations, societies and the world community at large.

Communication adds meaning to human life. It helps build relationships and fosters love and understanding. It enriches our knowledge of the universe and makes living worthwhile. Imagine life without various tools of communication—newspapers, books, letters, television and mobile telephone—and the expanse and significance of communication becomes crystal clear. Understanding the power of communication is imperative for the success of any human endeavour.

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### 12.1 OBJECTIVES

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

- Explain the different types of communication
- Describe the process of communication
- Examine the different barriers to the communication process and how to overcome them

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### 12.2 COMMUNICATION PROCESS

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Communication is a process that involves certain distinct steps. In its simpler form, it relates to stimulus and response. The stimulus arises from the communicator and the receiver responds. Communication is not complete till the message conveyed by the sender is properly understood by the receiver. Any communication process should necessarily have three elements—sender, receiver and the message.

Every communication has a distinct purpose, which determines the message. The stimulus emanates from the sender, and the receiver comes up with the response. The objective in any business communication, as we have seen earlier, is to elicit the desired response. To be understood, however, is a necessary but not a sufficient condition in the organizational context. When the understanding results in the intended action, the objective of the communication is achieved.

The following steps are involved in the communication process:

**Step 1:** Message is initiated.

**Step 2:** Sender picks up the idea and encodes it for proper understanding.

**Step 3:** The encoded message is then transmitted through the chosen medium or channel.

**Step 4:** Receiver receives the message and decodes it.

**Step 5:** The decoded message is used or acted upon.

**Step 6:** As a final step, feedback on use or action is sent back to the sender.

### **Communication Relates to Stimulus and Response**

The starting point of any communication is the existence of a message. The process of communication starts with a purpose. There is an underlying idea that has to be put across. This idea is developed into a message. The sender gives shape to the idea he wants to communicate.

The next step, as is evident from the chart, is the encoding of the idea. Encoding ensures that the idea or the message assumes a communicable form. Encoding would involve choosing the right words, expressions, phrases, charts and pictures in order to facilitate complete and clear expression of the idea. In doing so, the sender of the message should keep in mind the ability of the receiver to decode and comprehend the message.

The encoded message is now ready to travel. The journey or transmission is undertaken through a medium or channel. The sender of the message has to select the medium or the communication channel—oral, written, visual, audio-visual, electronic or a combination of any of these. Each of these offers various options. The choice of the medium would be influenced by factors like availability, cost, urgency and reliability.

The transmission is complete when the message reaches the receiver. The message has travelled from the sender to the receiver. Having received the message, it is now up to the receiver to respond as he pleases. If the receiver does not open the mailbox, ignores the letter, declines to take the call, refuses to view the audio-visual film or ignores the e-mail, the message gets lost, and the idea fails to reach its destination.

For the communication process to progress as intended, the receiver, on getting the message, should decode it. Decoding relates to reading, listening, viewing, understanding and interpretation of the message. Proper decoding is again a must for effective communication. It calls for earnestness on the part of the receiver. It depends on one's willingness to respond to the sender's efforts in sending the message. Even when one responds, understanding and interpretation of the message will be influenced by one's knowledge, attitude and perception. Communication is complete and effective only when the receiver correctly comprehends the purpose of the message, uses it and acts upon it as envisaged by the sender.

In the organizational context, in particular, the communication process moves a step further resulting in relevant feedback to the sender. The quality of feedback received from the target indicates the effectiveness of communication.

### **NOTES**

## NOTES

The process of communication is thus a progressive step-by-step movement. Both the sender and the receiver have a definite role to play in ensuring the success of communication. Their internal background, social status, hierarchical relationships, organizational climate, knowledge, skills and attitudes are among a host of factors that determine the effectiveness of communication. Added to that is the efficiency and reliability of the channels of communication chosen in the process. The choice of methods and channels should be such that they are capable of overcoming barriers, if any, to the process of communication.

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### 12.3 FORMS OF COMMUNICATION

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Apart from the different methods and channels of communication, one can also look at various types of communication. Communication can be categorized into different types depending upon the level at which it takes place, the direction it takes or by its very nature. Some of the commonly referred to types of communication are:

1. Personal and business communication
2. Internal and external communication
3. Upward and downward communication
4. Formal and informal communication
5. Lateral communication
6. Interactive communication
7. Mass communication
8. Global communication
9. Supportive communication
10. Social communication
11. Grapevine

The relevance and importance of each of these types of communication is discussed in the following paragraphs.

#### **Personal Communication**

Personal communication concerns communication that takes place between any two individuals, be it in a family, group, community or even an organization. It takes place in an individual capacity and is characterized by informality. There is an element of privacy in all such communications. It can take the form of personal letters, personal telephone calls, conversations, one-to-one meetings or e-mail messages. It is private in nature and there is nothing official about it. Private and confidential conversation between two individuals is also referred to as *tete-a-tete*.

## **Business Communication**

Business communication takes place to further the goals of a business. It takes place among business entities, in markets and market places, within organizations and between various groups of employees, owners and employees, buyers and sellers, service providers and customers, sales persons and prospects and also between people within the organization and press persons. All such communication impacts business. Done with care, such communication can promote business interests. Otherwise, it will portray the organization in poor light and may adversely affect the business interest. It helps the person concerned in moving up in the organizational hierarchy. Communication is the vehicle on which the business moves. The ability of the communicator to communicate effectively—verbally, non-verbally and in writing—is a prerequisite for organizational and business-related success. This book is all about this exciting subject which is dealt with in detail in the following chapters.

## **NOTES**

### **Internal Communication**

Internal communication takes place within the organization or group—among people within, among different groups of employees and between employers and employees. It could be oral or written, visual or audio-visual, formal or informal and upward or downward. Internal communication serves to inform, instruct, educate, develop, motivate, persuade, entertain, direct, control and caution people in the organization. When a personal letter is written at an official address, besides writing the name of the addressee, the envelope is superscribed ‘private’ or ‘confidential’ to convey the nature of communication. Knowledge, skills, goal orientation, sharing of corporate concerns, review and monitoring, performance appraisal, counselling and training are among the issues that internal communication addresses.

### **External Communication**

Unlike internal communication, external communication flows outward. It addresses people outside the organization, like the prospective customers, competitors, public, press, media and the government. External communication can take place in various ways and through different channels. Letters, notices, brochures, demonstrations, telephone calls, business meetings, press releases, press conferences, audio-visual presentations, publicity films, product launch events and advertisements are all examples of external communication. It is important to note that the external agency or person targeted through such communication quite often forms an image or impression based on such communication and it is, therefore, very necessary that adequate care is taken in making it clear, intelligible and appealing.

### **Upward Communication**

Large organizations have different hierarchical levels or tiers. Banks, finance companies, insurance businesses, railways and such other people-oriented

## NOTES

organizations have typically a three-tier or a four-tier structure. The process of communication to be complete and effective should encompass all these levels and tiers. Upward communication is one which moves upward, i.e., from the bottom to top levels in the hierarchy.

Any communication that moves from employees to supervisors, supervisors to managers, managers to executives and regional manager to general manager may be categorized as upward communication. Similarly, communication from branches to regional offices, regional offices to zonal offices, zonal offices to the head office is referred to as upward communication. Employee suggestions, market reports, performance reports, feedback on new products and requests for facilities or instructions are all examples of upward communication in the organizational context.

### **Downward Communication**

Downward communication moves from top to the bottom, i.e., from the CEO downwards. It travels through senior executives to junior-level functionaries, from the controlling office to the branch, from the head of the division to the head of the unit. Corporate goals, business priorities, motivational letters, work-related instructions, newsletters, letters from the CEO/General Manager's desk are all typical examples of downward communication.

There may be some communication which would move both upward and downward. A typical example of this is performance budgeting, which is a two-way process. It is a top-to-bottom as well as bottom-to-top exercise.

### **Formal Communication**

To ensure communication on an ongoing basis, organizations develop formal systems. Staff meetings, union-management meetings, branch managers' conferences, periodical sales review meetings and customer meets are examples of forums that facilitate formal communication. Formal communication generally follows a well-defined hierarchical pattern and periodicity. Memos, circulars, instructions, guidelines, clarifications, agreements and reports are some of the channels that facilitate the flow of formal communication in business organizations.

### **Informal Communication**

This type of communication takes place in an unstructured manner and outside the formal fora. There is an element of spontaneity in this communication. Informal communication works well in smaller, loosely knit organizations. It is used more often in situations where there are no rigid hierarchical tiers. While formal structure of communication is a must in large organizations, it is the informality that helps sustain goal orientation in small well-knit units. Informal communication takes place through chats, conversations and informal talks and the like.



### **Lateral Communication**

Lateral communication generally takes place in an organization and is neither upward nor downward. It proceeds in a horizontal manner and takes place among equals and at peer level.

It may also be described as peer-level communication. Any communication that takes place, orally or in writing, from one branch head to the other, from one division head to the other, from one group head to the other, may be described as lateral communication. An important point worth noting in any such lateral communication is that there is not much difference in terms of the hierarchical levels or positions of the sender and the receiver.

### **Interactive Communication**

Interactive communication is essentially a two-way process. It takes place through meetings, conferences, teleconferencing, multimedia presentations, group discussions and other such active two-way exchanges. Interactive communication is most appropriate when the message or subject is to be presented at length, e.g., in practical sessions, case study discussions and strategy formulation. When many speakers are involved, there may be a need for a moderator who will facilitate effective flow of communication from different speakers.

### **Mass Communication**

Mass communication is distinctive in view of its scale. Essentially, it addresses a large mass of people. Public speaking, newspapers, magazines and journals, radio, television and dotcoms are channels of mass communication. Mass communication has developed into a specialized area of study. Each of these areas or channels calls for distinct skills. By its very nature, mass communication addresses a vast, well spread-out and heterogeneous group of people and, as such, special efforts will have to be made to sustain their interest and achieve the desired response. At the government level too, there is often a separate ministry or department of mass communication to deal with this functional area. Main branches of study relating to mass communication are public relations, advertising and publicity, journalism and digital media.

### **Global Communication**

Global communication relates to communication that takes place beyond the national boundaries. Businesses operating in today's world are characterized by their global nature. Most businesses operate beyond the local or even national boundaries and are influenced by global trends. Businesses are known to operate in what is known as a global village. They often deal with customers, buyers, suppliers, service providers and even employees who are located in countries abroad. That is how global communication comes into play. Global communication has its own characteristics in terms of language, culture, etiquette and time factor, which have to be reckoned within the process of communication.

## **NOTES**

## Supportive Communication

### NOTES

Supportive communication is a form of communication in which people are encouraged to speak freely and come out with their feelings and concerns. This happens when managers take time to listen, do not interrupt or pass judgments, make efforts to understand, and do not criticize and snub the other party. This type of communication calls for abundant patience and empathy, or the ability to understand the other person's feelings and experiences on the part of the manager or superior. Any person will freely share his or her inner feelings and concerns only when he or she feels that the listener is empathetic and interested. The supportive communicator has to create an environment where a person will feel encouraged to speak up without restraint.

## Social Communication

As members of society, people everywhere will have to interact with others on a regular basis. Social communication takes place when people meet each other outside business and workplace situations. Social skills refer to the ability to talk easily to other people and do things in a group. Social communication often takes place at an informal and friendly level. Nevertheless, when business people meet at social events to exchange pleasantries, or meet for lunch or dinner, there are some social etiquettes which have to be taken note of.

## Grapevine Communication

Grapevine is a kind of informal communication that prevails in organizations and businesses. The source of such communication may not be clear. It spreads by way of gossip and rumours. It travels through informal networks and quite often travels faster than the formal messages. Sometimes, it gets more powerful and becomes more receptive than the formal communication. The prevalence of this type of communication in an organization has to be recognized and accepted. A skilled communicator can derive benefits from such a communication as well. It may not always be possible to control the grapevine, but, nevertheless, an able communicator knows how to influence it. Like any other type of communication, this one too has its merits and demerits.

### Check Your Progress

1. What are the three elements of the communication process?
2. What is personal communication concerned with?
3. What are some channels of mass communication?
4. What type of communication is grapevine communication?

## 12.4 BARRIERS TO COMMUNICATION

As we have seen earlier, communication is a process that covers six different steps involving, among others, encoding, decoding and transmission. For ensuring effective communication, all the parties and instruments will have to play their part as envisaged. At every stage of the communication process, however, there are barriers, which hinder or dilute the flow of communication. The barriers to communication in an organizational context may arise out of authority structure, status difference, reporting relationships, culture and background of individuals. The barriers to communication may arise out of behavioural differences, differences in skills and understanding as well as physical factors. While some kinds of barriers like behavioural differences and differences in skills may be commonly applicable to all methods of communication, barriers arising out of physical factors may be specific to the method of communication adopted. Some barriers, which are specific to the written communication, are handwriting, spellings and legibility. Similarly, barriers to oral communication would include absence of felicity of expression, accent, speed of delivery and appropriateness of the language.

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#### Poor Expression

The power of expression of the communicator determines the quality of communication. To be effective, the message has to be properly developed from an idea. Barriers relating to expression result in poorly expressed messages. Lack of conceptual skills results in inadequate or incomplete shaping of the idea. Ambiguity as well as lack of clarity arise due to limited word power, improper organization of ideas and lack of coherence. If the words and thoughts are not organized properly, the communication would suffer for want of structural balance or a sense of proportion. Obviously, such poor expression of thoughts and ideas leads to incorrect, incomplete and incoherent messages. All this would result in avoidable errors and seeking of further clarifications, adding to costs and delays in communication. Encoding and decoding require skill to ensure clarity and precision. Poor expression is likely to occur under the following circumstances:

- When a person is ill
- When a person is fatigued
- When a person is under severe stress
- When a person is under the influence of alcohol
- When a person's thoughts are not clear and vocabulary is limited.

These are true for both oral and written communication.

#### Faulty Transmissions

The process of transmission, essential for any communication, is susceptible to errors of omission and commission. In the organizational context, the person

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transmitting the message may be different from the person who conceived the idea. The intent and purpose of the message may not remain the same as it moves from the originator to the transmitter. Not only that, the person transmitting the message may bring in his own bias, feelings and perceptions, which the originator of the message would not have intended. Or else, there may be occasions when the originator of the idea expects the transmitter to detail, illustrate and elucidate the idea, which the latter may fail to do.

### **Indifference and Lack of Interest**

This is indeed a very strong barrier in the process of communication. Organizations have to make considerable effort to ensure that indifference to organizational communication is brought down to the minimum. Communication, to be effective, presupposes that the receiver of the message is also attentive or receptive. Attentive listening in oral communication, careful reading in written communication and keen observation in non-verbal communication are a must. Indifference or lack of interest on the part of the recipient, in turn, adversely impacts the enthusiasm of the communicator. When the students are not attentive, the teacher is likely to lose interest. On the other hand, when the speaker lacks expertise or credibility, the receptivity of the audience wanes. Indifference and lack of interest creates barriers to communication, as a result of which the quality of communication suffers. The intended message is either not received at all or is incomplete and, worse still, is understood incorrectly.

### **Noise**

Noise is yet another barrier especially relevant to verbal communication. Noise disturbs the flow of communication. The recipient fails to receive the oral messages sent by the communicator, as a result of which the message gets diluted. While noise certainly affects oral communication, it may also affect written communication to the extent that the person writing a letter or a report may lose his concentration and consequently his flow of thoughts may suffer.

### **Physical Factors**

The process of communication, especially transmission of messages, makes use of numerous channels, instruments and gadgets such as telephone, microphone, projector, printing, photocopying, telex, fax, radio, film, cassette and of late, the floppy, compact disc and the pen drive. All these are very useful when they function smoothly. At the same time, they act as barriers when they fail to perform their functions efficiently. As a result, communication fails to reach the target audience. Snapping of telephone lines, non-availability of meeting rooms, failure of multimedia equipment and disturbances of power supply may lead to delays in transmitting the messages to the intended recipients.

## People Related Factors

The process of communication essentially involves human beings. Like democracy, we may describe communication as of the people, for the people and by the people. Yet, people do not think, understand and interpret alike. In other words, meanings are in people. In any large organization, especially in multinational ones, there are differences among the employees in terms of language group, cultural background, rural-urban origin and hierarchical levels which in turn create psychological, linguistic and cultural barriers. Differences in hierarchical positions have their implications in terms of work structure, authority, status and relationship. In such situations, people may have bias, fear and reticence, which act as barriers to the free flow of communication. All these factors lead to different expectations among people within the organization, as to who should communicate with whom and in what manner. Apart from this, the organizational climate has its impact on communication. It is conducive when people are encouraged to speak out and there is free flow of communication. On the other hand, when the organizational climate is disturbed, and when dissenting voices are stifled, barriers emerge.

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### 12.4.1 Overcoming Barriers

Effective communication calls for coordinated effort. Good communication like any other high-quality output is very much the result of hard work. Good communication does not occur accidentally. It calls for proper planning, understanding of human behaviour, choice of physical facilities and mechanical or electronic devices and the organizational context. It is necessary to understand the essentials of good communication and work towards achieving them.

#### Be Clear About the Purpose

The first essential for effective communication is to be clear about the purpose of communication. Every communication has an objective. It is a means to an end. One should be clear about what one wants to achieve through the process of communication. The objective of any communication is not just to receive or convey a message. The communicator has to ensure that the message reaches the receiver. Any message that is not backed by a clear and well-developed idea becomes purposeless communication entailing wastage of time and effort. The urge to communicate should be preceded by clarity of purpose. Ask yourself what you want to achieve or accomplish by the communication: is it to impart information, express concern, enlist support, express displeasure or imbibe skills? The objective may not be one but a combination of these purposes.

#### Understand the Process of Communication

Another essential for effective communication is the need to understand how the process of communication works, i.e., the principles and tools of communication. To appreciate the various steps involved in communication in terms of encoding,

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decoding, transmission, comprehension and feedback, it is necessary to have a good understanding of the mode, channels, types, instruments, methods and barriers relating to communication and the factors affecting it. Good communicators, like good artists, use their tools effectively.

### **Be Clear About Your Target Audience**

The intended message cannot bring about the desired result unless it reaches the right person or group of persons. The message should address the target group. For communication to be effective, it should be properly focused. Be it a letter, a speech, a film or a presentation, make sure the receiver is connected with or is relevant to the purpose of communication. Quite often, communication loses its effectiveness because it reaches an unintended audience. Good ideas and messages reaching the wrong persons will end up as an exercise in futility. The next essential step is to develop good communication skills. Effective communication presupposes the ability to communicate under varied circumstances. The skills of communication that need mastering are reading, writing, listening, speaking, body language and presentation. One must be clear about the merits and demerits of various types of communication and which of them is to be used under a given set of circumstances. Each of them is a different skill and requires a conscious effort to develop it.

### **Be Well Informed**

Communication quite often relates to providing information. The initiator of the communication should, therefore, be well informed about the message he wants to pass on. The initiator should also have the right perspective about the message and be in a position to appreciate the context in which the message is being communicated. Limited information or limited understanding by the sender naturally limits the sender's ability to communicate. This happens in an organizational context when the sender of the message is doing so based on incomplete information. People receiving the message often have their expectations about it and the person giving the message should take cognizance of it.

### **Plan Your Communication**

In order to be effective, any communication is to be well planned. The message to be conveyed, the words to be chosen, the action to be sought, the feedback to be obtained, are all the areas that need to be carefully considered. These aspects will have to be evolved properly before deciding on the right choices. While some routine messages can be communicated without advance planning, all important communication in organizations/ businesses need organized effort. Inadequate planning can, and often does, result in ineffective communication. Good planning should take note of the target audience and pay attention to their attitudes and expectations, as well as timings.

### **Be Positive in Approach**

Yet another requirement for effective communication is a positive approach and the right mental attitude. The communicator should have faith in the process. He should develop confidence through learning and practice. He should take responsibility for making the communication work. The communicator should learn to overcome barriers and look for positive signals. She should not bring in her own bias. He/she should recognize the power of communication and strive to achieve results through the process. She should not underestimate the reader or listener and develop the skill of dealing with every receiver of communication with respect and understanding. A positive approach begets a positive outcome and contributes to the success of the communication process.

### **Avoid Extreme Feelings**

Extreme and strong feelings are not conducive to effective communication. Anger, depression and frustration adversely impact the thought process and thereby distort what is intended to be conveyed or what needs to be conveyed. A disturbed mind brings out disturbed thoughts and thus distorts communication. While addressing important communications, and reacting to provocative remarks, it is essential to wait till the mind regains its balance and the severity of feelings subsides. It is absolutely essential to realize that quite often the process of communication is irreversible. A word spoken or a letter written in a fit of anger can do considerable damage. This is particularly true in work situations, market places, organizations and business. Restraint pays.

### **Be Sincere**

Effective communication demands a certain degree of honesty and sincerity on the part of the parties involved in the communication. It is necessary that the messages are given sincerely and truthfully. There should not be a deliberate attempt to mislead or manipulate the recipient of the message. If the receiver of the message loses faith in the communicator, the process of communication suffers in terms of credibility. Effective communication therefore presupposes sincerity and humility.

### **Communication Clue**

It is well recognized that magic words like, “Please”, “Thank You”, and “I am sorry” can do wonders in communication. Using them in our everyday written and spoken communication underlines sincerity.

### **Be Consistent**

Communication is mostly a regular process rather than a one-time affair. In personal dealings, in organizational settings and business places, communication takes place almost all the time. The parties involved in the communication quite often are the same. When communication takes place on a regular basis, it is necessary to be

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consistent. It is necessary not to contradict oneself. There may be scope for modification or correction, but not for contradiction. Further, when different methods of communication are used in conveying a particular message, contradictions have to be consciously avoided. The spoken message should be in tandem with the body language. Non-verbal communication should supplement oral messages.

### **Appreciate the Time Factor**

In any communication, especially in business communication, time is of prime importance. Speed and timeliness contribute significantly to the effectiveness of communication. In today's world, the value of time is well recognized. Organizations and businesses set goals which have to be achieved within a given time frame. Tasks have to be completed before the allotted deadlines. All communications concerning such goals and tasks will have to appreciate the time factor. Quite often the message that is delayed is wasted. Therein lies the significance of the choice of the channel of communication. The channels selected should be such that the message is delivered well in time.

There is another dimension to the time factor in communication. The process of communication should take just the right time. Long speeches that stretch well beyond the allotted time, lengthy written communication and unusually long films and documents not only test the patience of the listener/reader/viewer, but also tend to lose their force and get diluted in the process. Communication should be in measured doses, since an overdose of even useful and relevant communication may be received without enthusiasm. The time the receiver of the communication allocates for the purpose has to be borne in mind to ensure effective communication. This factor is particularly relevant in today's context of communication overload.

### **Use Proper Modes and Channels**

We have already discussed the various modes, channels and types of communication. The method or type of communication to be used will vary from situation to situation. Effectiveness of the communication will depend on the choice of methods and instruments. There are times when written communication cannot convey as forcefully as oral communication. There are occasions when a telephone call would be more appropriate than a letter. There may be messages which are important enough to be conveyed through fax rather than by regular mail. Similarly, some messages can go by ordinary mail, some by telex and some others by fax or even e-mail. Make the right choice and repeat the message, when essential. The choice of the wrong channel may delay or dilute the message and hamper its effectiveness.

### **Be Cost Conscious**

The process of communication quite often entails costs. There are direct and indirect costs involved in sending messages. These costs vary depending upon the method of communication and the means of transmission. Since communication in an



organization is ongoing, such costs can add up to a substantial amount. The results achieved by the communicator should justify the costs incurred in the process. If not, there is no effectiveness in such communication. Organizations should, therefore, make conscious efforts to make their communication systems not only efficient, but also cost effective through proper evaluation of available options.

### **Obtain Feedback**

Feedback is another important component of the process of communication. The person communicating the message calls for feedback to reassure himself that the message has reached the target as envisaged.

Feedback provides valuable information relating to the time factor, quality of the message, understanding of the receiver and the action initiated. Such feedback helps in evaluating the efficacy and reliability of the types, methods and channels of communication used. Feedback helps in understanding the mistakes committed in encoding and decoding the message and losses in transmission. Mistakes, if any, can be dealt with by undertaking effective corrective measures.

### **Avoid Communication Overload**

To be effective, communication should always be in measured doses. The communicator should take care not to overdo or overstretch the communication. Communication is essentially a participative process, and if not within reasonable limits, the efficacy will suffer. Imagine receiving a 30-page newspaper every day, or sitting through a non-stop 4-hour speech by a single speaker, or participating in a technical workshop from morning till late in the evening. Whatever be the merit in terms of context, the response is more than likely to follow the principle of diminishing returns. Effective communicators learn to limit their communication in line with receptivity and avoid excesses.

In the foregoing paragraphs, we have made an attempt to list out the essentials for effective communication. Since communication is essentially a two-way process, both the giver and the receiver of the message will have to conform to well-defined principles and norms. The spirit of communication is as important as the modalities. When we talk about leadership qualities and other people-related dimensions in the organizational context, it is the role model type of communication that is being emphasized. Unless one practices what one preaches, words become hollow and communication loses its shine. Effective communication strives to pre-empt any misunderstanding and accomplish complete and clear understanding.

#### **Check Your Progress**

5. What determines the quality of communication?
6. What is the relationship between effective communication and sincerity

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## 12.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. Any communication process should necessarily have three elements—sender, receiver and the message.
2. Personal communication concerns communication that takes place between any two individuals, be it in a family, group, community or even an organization. It takes place in an individual capacity and is characterized by informality.
3. Public speaking, newspapers, magazines and journals, radio, television and dotcoms are channels of mass communication.
4. Grapevine is a kind of informal communication that prevails in organizations and businesses.
5. The power of expression of the communicator determines the quality of communication.
6. Effective communication demands a certain degree of honesty and sincerity on the part of the parties involved in the communication. It is necessary that the messages are given sincerely and truthfully. There should not be a deliberate attempt to mislead or manipulate the recipient of the message. If the receiver of the message loses faith in the communicator, the process of communication suffers in terms of credibility.

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## 12.6 SUMMARY

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- Any communication process should necessarily have three elements—sender, receiver and the message.
- Communication can be categorized into different types depending upon the level at which it takes place, the direction it takes or by its very nature.
- At every stage of the communication process, however, there are barriers, which hinder or dilute the flow of communication.
- The barriers to communication in an organizational context may arise out of authority structure, status difference, reporting relationships, culture and background of individuals.
- The process of transmission, essential for any communication, is susceptible to errors of omission and commission.
- Effective communication calls for coordinated effort. Good communication like any other high-quality output is very much the result of hard work.

- Good communication does not occur accidentally. It calls for proper planning, understanding of human behaviour, choice of physical facilities and mechanical or electronic devices and the organizational context.

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## 12.7 KEY WORDS

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- **Grapevine:** It refers to an informal person-to-person means of circulating information or gossip.
- **Lateral communication:** The type of communication that generally takes place in an organization and is neither upward nor downward. It proceeds in a horizontal manner and takes place among equals and at peer level.
- **Feedback:** It refers to information about reactions to a product, a person's performance of a task, etc. which is used as a basis for improvement.
- **Internal communication:** The type of communication that takes place within the organization or group—among people within, among different groups of employees and between employers and employees.

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## 12.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

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### Short-Answer Questions

1. What is external communication?
2. How does noise affect the communication process?
3. Write a short-note on how one can overcome the barriers to communication.

### Long-Answer Questions

1. Describe the process of communication in detail.
2. Explain the different types of communication.
3. Describe the different barriers to communication.

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## 12.9 FURTHER READINGS

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## UNIT 13 COORDINATION

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### Structure

- 13.0 Introduction
- 13.1 Objectives
- 13.2 Importance, Need, Types and Scope
  - 13.2.1 Types and Principles of Coordination
- 13.3 Social Responsibility of Management
- 13.4 Answers to Check Your Progress Questions
- 13.5 Summary
- 13.6 Key Words
- 13.7 Self Assessment Questions and Exercises
- 13.8 Further Readings

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### 13.0 INTRODUCTION

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In the previous unit, we learnt about the communication process. This unit discusses the various aspects of coordination in an organization, such as its meaning, characteristics, types, principles and techniques. Coordination refers to the process of developing an orderly pattern of group effort and securing the unity of the actions in the pursuit of common goals of an organization. Coordination is a continuous and ongoing process. Greater coordination among different groups is essential due to the existence of many disintegrating forces in the organization. Coordination may be of different types—internal, external, vertical, horizontal, procedural and substantive.

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### 13.1 OBJECTIVES

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After studying this unit, you should be able to:

- Define coordination and list its characteristics
- Assess the various types and principles of coordination
- Compare different techniques of coordination
- Describe the social responsibility of managers

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### 13.2 IMPORTANCE, NEED, TYPES AND SCOPE

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Coordination is a synchronization of group efforts to achieve common objective.

According to McFarland, '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. We can thus say coordination is important because it is the centre point of managerial tasks.

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**Example:** Planning is ineffective if departmental plans are not properly integrated and coordinated. It is required in each managerial function. Department A may schedule some work for the beginning of the week. Department B may schedule part of the same work for the end of the week. If the project is to be completed by the end of the week, this kind of discrepancy in scheduling will not help to stick to schedules. Thus, every function of management should be coordinated in order to achieve the objectives of the organization.

### Characteristics and Importance of Coordination

Following are the characteristics and importance 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.

**Example:** A number of heterogeneous departments in an organization share information and adjust their timing of, for example, their lobbying activities for a new project, in order to maximize their impact. However, each entity might have a different goal and use its own resources and methods of creating impact. This is an example of a coordinated activity.

### Need for Coordination

Existence of disintegrating forces emphasizes the need for greater coordination among various divisions of an enterprise. The disintegrating forces may act as barriers to effective coordination. The factors that emphasize on the need for coordination are as follows:

- **Increasing specialization:** Coordination becomes essential when the principle of specialization 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.
- **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 isolates him from others.
- **Personal conflicts between employees:** Personal rivalry, jealousy and politics among the employees in the work situation are bound to create problems for the management.
- **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 importance of coordination need not be overemphasized. 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.

### 13.2.1 Types and Principles of Coordination

In this section, you will learn about the types and principles of coordination.

#### Types of Coordination

Depending upon the nature, coverage and flow, coordination may be divided into three types discussed as follows:

1. **Internal and External Coordination:** Coordination between units of the same organization is termed as internal coordination. It summarizes the activities of different units so as to make the coordination in the organization more effective. Organizations are not free from the influence of external environment. External environment includes technology, competition, market forces, customers and government policies.
2. **Vertical and horizontal coordination:** Coordination between different levels of hierarchy down the line is termed as vertical coordination. It ensures that all levels of people, from the top to the bottom, work in harmony. It is greatly facilitated by a technique like delegation of authority to the lower levels of hierarchy. Horizontal coordination is the linking of activities across departments at similar levels.

**Example:** Suppose the Board of Directors of an enterprise announces a bonus policy based on the performance of its employees. President (HR) directs the manager (HR) to initiate the performance appraisal of the employees. HR executives prepare the appraisal report and present it for the approval of the Board of Directors. This is an example of vertical coordination. Suppose the President (Marketing), and the President (Sales), of an enterprise decide to put forth a joint proposal before the Board of Directors for enhancement of travel allowance for their touring executives. Each one of them writes one section. These two sections are then compiled into one proposal. This is an example of horizontal coordination.

3. **Procedural and Substantive Coordination:** Procedural coordination implies the generalized description of the behaviour and relationship of the member of the organization. On the other hand, substantive coordination is concerned with the content of organizational activities.

#### Principles of Coordination

**Mary Parker Follett** (3 September 1868 – 18 December 1933) was an American social worker, management consultant and pioneer in the fields of organizational theory and organizational behaviour. According to her, there are four principles for

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effective coordination. These principles help every manager in discharging his functions.

1. **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.
2. **Direct personal contact:** Coordination stresses the importance of direct contact in removing conflicts and misunderstanding. Direct communication is the most effective way to convey real feelings to facilitate greater coordination.
3. **Continuity:** Coordination is an unending process. The management has to continuously strive hard to maintain perfect balance among different units/people. Continuous coordination helps the manager to adjust the cooperative activities of employees to minimize wastage, misunderstanding and apathy.
4. **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.

**Independence 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 categorized interdependence of work units under three heads.

- (i) Pooled Interdependence, (ii) Sequential Interdependence and (iii) Reciprocal Interdependence

**Check Your Progress**

1. Define coordination.
2. What is the fourth principle of coordination?

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**13.3 SOCIAL RESPONSIBILITY OF MANAGEMENT**

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According to Earnest Dale, author and management consultant, it is the duty of a business to provide fair returns to the shareholders, fair working conditions to the employees, fair deals to the suppliers and customers and to make the business an asset to the local community and the nation.

- (i) **Owners of business:** Management must provide fair, adequate and stable long-run rate of return and steady capital appreciation to the shareholders for their investments. It must also provide to them regular, accurate and up-to-date information about the working of the company. Maximum disclosure about the progress and achievements of the company is very satisfying to



the shareholders. It must ensure planned growth, solvency of the business and optimum utilization of the resources of the business.

- (ii) **Employees:** Employees need job security, higher wages, full employment, better conditions of work, opportunities for self-development and promotion. They want to unite and form their trade unions to achieve rights and to seek protection against high-handedness of the management. They also desire their work itself to be rewarding. Management, as a part of its social responsibilities, is expected to provide for their social security, welfare, grievances settlement, machinery and sharing of excess profits.

Management should serve as a model employer. A model employer is one who does not exploit his employees. As a model employer, the management should provide stable employment, adequate wages, good and safe working conditions, job satisfaction and opportunities for self-development. Healthy trade union practices may be encouraged. Employees may be considered as partners in business, since their interests in business are not very different from the interests of the shareholders. They may be allowed to participate in the decision-making process at all levels of management. A feeling of fellowship and sense of belonging to the company as a whole should be allowed to grow.

- (iii) **Consumers:** In the words of Henry Ford, ‘Management must provide those goods and services that the society needs at a price that the society can afford to pay.’ Management is supposed to provide good quality products to the consumers at reasonable prices. It should develop a liberal and fair attitude towards the consumers. It must maintain regular supply of high quality products and provide services to them. Managers must meet the needs of the consumers of different classes and tastes and with different purchasing powers. The needs must also be met at the right time, place, and price and with the quality. A businessman should act as a friend and guide to the consumer. It is his duty to protect the consumers’ interests at any cost. He must guard against such practices as adulteration, poor quality, lack of service, misleading and dishonest advertisements, underweighing and supply of goods. He must handle their complaints carefully and efficiently.

The concept of social responsibility of business was first mooted by President Wilson in the US as early as 1913 as a measure of the ‘New Democracy’. He gave a new shape to the manners and morals of business, through the Chamber of Commerce, under the doctrine of self-fuel in industry that listed fair trade practices and enforced self-discipline by the business community.

Social issues with which business corporations have been concerned since the 1960s may be divided into three categories:

- The first of these refers to social problems external to the corporation that is not caused by any direct business action. Poverty, drug abuses and decay of cities are examples of problems in this category.

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- The second category consists of the external impact of regular economic activities. Pollution by production is a case in point. The quality, safety, reliability of goods and services, deception in marketing practices, the social impact of plant closings and plant location belong to this category.
- The final category of issues occurs within the firm and is tied to the regular economic activities. Equal employment opportunity, occupational health and safety, the quality of work life and industrial democracy belong to this category.

The second and third categories are of increasing importance and relate to the regular economic operations of business. Improved social performance demands changes in these operations. Broadly speaking, business has two major objectives—economic and social.

### **To Whom are Organizations Socially Responsible?**

Social responsibility is defined as a business obligation of a firm to work in such a manner that the society is benefitted. This definition gives rise to a question—To whom should an organization be responsible? The shareholder model suggests that a company's only responsibility is towards its shareholders. The company has the responsibility to maximize company profits in order to increase shareholders' wealth. However, the needs of primary stakeholders, on which the organization relies for its survival, take precedence over those of secondary stakeholders.

In order to completely benefit from their stakeholders, a company should fulfil their economic, legal, ethical and discretionary responsibilities.

With reference to its social responsibilities, a company's economic and legal responsibilities take the forefront while ethical and discretionary responsibilities take a back seat. One important factor to remember is that the importance of these responsibilities completely depends on the societal expectations during a particular time. Many decades ago, the society expectations of a business were limited to meeting the economic and legal responsibilities. With the changing dynamics of the world economy, the societal expectations have changed tremendously. Today, the society demands that a business should be more socially responsible. The ethical and discretionary responsibilities have gained much more significance than they had in the past.

In the past, the society valued a company's economic responsibility of making significant gains through the production of goods and services. The society regarded this as the most basic social responsibility of a business. In case an organization is unable to meet its financial and economic expectations, they feel pressurized.

The company's legal responsibility is defined as the society's expectation according to which a company will abide by the societies rules and regulations while simultaneously trying to meet their economic responsibilities. For example, under the 1990 Clean Air Act in the US, the smell of fresh baked bread is now illegal. It is not the smell that is illegal but the ethanol that is emitted in the process

of baking bread. Although, ethanol itself is non-toxic, it contributes to pollution, because it promotes the formation of the harmful atmospheric compound—ozone. Consequently, to meet the law, large bakery plants may have to spend millions to purchase catalytic oxidizers that remove ethanol emissions.

The society's expectation from a business organization that it will not violate the principles and practices of the society while conducting business. However, there may be a difference of opinion in as to what should come under the jurisdiction of ethical. Due to disagreement among different stakeholders, it becomes difficult to meet ethical responsibilities rather than fulfilling economic and legal responsibilities of a business.

Besides economic, legal and ethical responsibilities, a business is liable to certain discretionary responsibilities which are closely related to the social role of businesses. Companies who do not perform these voluntary discretionary responsibilities are considered unethical.

### Check Your Progress

3. Who first mooted the idea of social responsibility of business?
4. What is a company's legal responsibility?

## 13.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. 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.
2. 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.
3. The concept of social responsibility of business was first mooted by President Wilson in the US as early as 1913 as a measure of the 'New Democracy'.
4. The company's legal responsibility is defined as the society's expectation according to which a company will abide by the societies rules and regulations while simultaneously trying to meet their economic responsibilities.

## 13.5 SUMMARY

- 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.

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- Depending upon the nature, coverage and flow, coordination may be divided into three types. These are internal and external coordination, vertical and horizontal coordination, and procedural and substantive coordination.
- The task of coordination becomes relatively easy if it starts at the planning stage.
- Coordination stresses the importance of direct contact in removing conflicts and misunderstanding.
- Communication is the key to coordination. Open and regular communication helps in interchange of opinions and resolution of differences between the management and employees.
- It is the duty of a business to provide fair returns to the shareholders, fair working conditions to the employees, fair deals to the suppliers and customers and to make the business an asset to the local community and the nation
- Social responsibility is defined as a business obligation of a firm to work in such a manner that the society is benefitted.

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### 13.6 KEY WORDS

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- **Coordination:** It is the process of organizing people or groups so that they work together properly and well.
- **Stakeholders:** A group of people who own a share in a business, or employees, customers, or citizens who are involved with an organization, society and therefore have responsibilities towards it and an interest in its success.
- **Motivation:** It means the need or reason for doing something.
- **Unethical:** It means something that does not conform to a high moral standard.

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### 13.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. Discuss the characteristics of coordination.
2. Write a short-note on the social responsibility of business.

#### Long-Answer Questions

1. Describe the different types of coordination.
2. Explain the principles of coordination.

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## 13.8 FURTHER READINGS

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- Chandan, J.S. 2007. *Management: Concepts and Strategies*. Noida: Vikas Publishing House.
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## UNIT 14 TYPES OF MANAGEMENT

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#### Structure

- 14.0 Introduction
- 14.1 Objectives
- 14.2 Environment-Friendly Management
- 14.3 Management of Change
- 14.4 Management of Crisis
- 14.5 Total Quality Management
- 14.6 Stress Management
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- 14.10 Key Words
- 14.11 Self Assessment Questions and Exercises
- 14.12 Further Readings

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### 14.0 INTRODUCTION

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In the previous unit, you learnt about coordination. In the final unit of the book, the discussion will turn towards different types of management not discussed so far. The unit will begin with a discussion on environment friendly management. It will then discuss management of change and management of crisis. Then the discussion will turn towards total quality management. In the final section, we will discuss stress management and international management.

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### 14.1 OBJECTIVES

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

- Discuss environment friendly management and international management
- Describe the process of total quality management
- Examine the ways to manage stress in organizations
- Explain the process of managing change in an organization
- Discuss conflict in organizations

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### 14.2 ENVIRONMENT-FRIENDLY MANAGEMENT

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The publication of Rachel Carson's book *Silent Spring*, in the 1960s, spread the awareness about the issues relating to environmental degradation. Since then more and more agencies and organizations have joined the drive to improve and

maintain our environment. In the 1970s, under President Richard Nixon, the Environmental Protection Agency was set up to address the problem of environmental degradation and look for methods to improve the environment.

Various researches have been undertaken to establish a positive link between corporate environmental performance and profitability arguing that it can pay to be eco-friendly. However, empirical evidences reveal a different and grim picture, but because of their impact on environment especially through exhaustive usage of ecosystem resources, expectations from business are always on a higher side.

Yet many businesses are proactive and act voluntarily to reduce the environmental impacts of their activities and many more are realizing that it is a sensible approach to business that can have many benefits.

Several approaches and initiatives have been taken to protect the environment and contribute towards the larger goal of sustainability. Instruments that have supported the cause include laws and regulations, recycling, environment management system, research and campaigning.

Many laws and regulations have been framed and passed at the national and international level in relation to business's obligations towards environmental protection. The major ones at the international level include the following:

- Atomic Energy Act (AEA)
- Chemical Safety Information
- Site Security and Fuels Regulatory Relief Act
- Marine Protection Act
- Nuclear Waste Policy Act (NWPA)
- Toxic Substances Control Act (TSCA)

Realizing the importance of recycling to conserve energy and reduce the consumption of natural resources, several companies are focusing on recycling technologies and processes, in order to document best practices.

We know that an environmental management system involves managing the environment in a systematically planned and documented manner. As a framework an effective environment management system helps a company to achieve its environmental goals by reducing chances of non-compliance and improving health and safety practices. Two ways by which companies have shown their commitment to environmental protection are as follows:

- ISO series
- Eco-management cost audit

A method by which companies can help in protecting and preserving environment includes organizing research and campaign activities to increase the awareness of communities and other companies.

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## 14.3 MANAGEMENT OF CHANGE

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Change is a phenomenon that pushes us out of our comfort zone. It is for the better or for the worse, depending on how it is viewed. Change has an adjustment time line that varies from person to person. Change has a negative effect on those who do not want to let go. Being flexible is the key. For instance, a roller coaster ride can symbolically be indicative of change—it can be fun if you know when to lean and create balance. Change is not related to the mantra ‘just hang in there’, but the mantra ‘you can make it’. It is not associated with worrying. Change spurs you to achieve your best. It will help you to learn. Change is inevitable. It is the management’s duty to see that change is managed properly. Organizations must keep a watch on the environment and incorporate suitable changes that the situation may demand. Change is a continuous phenomenon. Organizations must be proactive in effecting change. Even in the most stable organizations, change is necessary just to maintain a certain level of stability. The major environmental forces that make change necessary are technology, market forces and socio-economic factors. Resistance to change is counter-productive for growth and destructive in nature; it is, therefore, undesirable. Hence, managers must evolve policies to effect change. According to Barney and Griffin, ‘the primary reason cited for organizational problems is the failure by managers to properly anticipate or respond to forces for change.’

Change management means implementing significant change in an organized and systematic manner. The main objectives of change management are:

- to ensure that the people and culture are aligned with strategic shifts in the organization.
- to reduce impediments to change and increase engagement so that the transformation is more effective

The first step towards achieving sustainable change is to have a comprehensive understanding of the current state of the organization. The second, and equally important step, is the implementation of relevant and focused strategies. Thirdly, the setup needs to be well understood by the people who work in the organization.

An effective change management strategy gives desired outcomes, leads to a sense of ownership among employees, enables sustained and measurable improvement, and prepares everyone for possible future changes.

### **Understanding Organizational Transformation**

The term ‘organizational transformation’ refers to such activities as reengineering, redesigning and redefining business systems. The key enablers for transforming organizations are information and technology.

In the rapidly changing financial environment, business models change rapidly. Mergers and acquisitions change the very face of the organization. Therefore, organizations need to continually:



- (i) be flexible, effective and efficient
- (ii) have a customer-centric approach to organizational activities
- (iii) create a more productive environment by recognition of current strengths
- (iv) understand and position themselves to reap the benefits of competitive technology and business alignments
- (v) promote an integrated business approach

A radical change which takes an organization to a new and different level of structure and functioning is called organizational transformation. It occurs when new business strategies are introduced and implemented.

Organizational transformation signifies a change that challenges the way an individual thinks, perceives and feels about the organization; his deep-rooted convictions and work ethic. This type of transformation goes beyond changing the manner in which business is done. It is about changing the work culture and value system of an organization. A well-led and well-orchestrated change strategy and transition plan leads to organizational transformation. There has to be a deep seated adoption of the changes and the associated values, principles and/or processes. Restructuring and rearrangement changes the way business is done and results in a marked change in organizational culture and reinforces a process of continuous improvement. Unlike a 'turnaround' (which implies incremental progress on the same plane) transformation implies a basic change of character and little or no resemblance with the past configuration or structure.

Deregulation and improvement in the licensing procedures, for instance, have pushed organizations in the financial services, the telecommunications, and the airline industry to rethink business strategies and reshape their operations. Public demand for value for money and lowered deficits has forced public sector companies to get their operations more streamlined so that they deliver more for less. The rapid technological advancement has rendered several organizational practices obsolete, forcing the firms to innovate or perish. The change therefore, fundamentally alters the qualitative nature of the organization.

### **Transactional vs. Transformational Organization**

There are two types of changes that occur in an organization — transactional and transformational. Transactional, which is also called the 'first order change', is related with continuity in the organization. It is not related with the strategic changes that takes place in the organization. Transformational change or the 'second order change' is discontinuous in nature and is related with altering the organization from its core.

The first-order change 'may involve adjustments in systems, processes, or structures, but it does not involve fundamental change in strategy, core values, or corporate identity.' First order changes do not amend the basic fibre of the organization. The examples of first-order change could include creating new report

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formats, new methods of collecting old data and refining the existing processes and procedures.

The second-order change is of a bigger magnitude. It entails a change in the system itself. This type of change is usually the result of a strategic overhaul of the system or even a severe crisis, which may threaten the very survival of the system. Second-order change leads to a complete redefinition or reconceptualization of the organization and the way business is to be conducted in future.

In short, these two orders of change present contrasting features: the first merely improves the existing module and the second completely alters the basic module. Golembiewski, Billingsley, and Yeager subsequently introduced a third level of change, defined as middle-order change lying between the extremes of first- and second-order change. Middle-order change 'represents a compromise; the magnitude of change is greater than first-order change, yet it neither affects the critical success factors nor is it strategic in nature.'

When these two orders are evaluated for their respective scales of change, the first order change is seen as relatively small in scale, incremental, and adaptive, while second order change is seen as large scale and disruptive at a business or organization level.

### Types of Transformation

There are three types of transformation:

- (a) **Improved operations:** To achieve efficiency by reducing costs and reducing development time and at the same time improving quality of products and services.
- (b) **Strategic transformation:** To regain or attain a sustainable competitive edge over competition by redefining business objectives, establishing new strengths and harnessing these capabilities to meet market opportunities.
- (c) **Corporate self-renewal:** To anticipate and adapt to change such that a strategic and operational gap does not develop.

Certain types of changes can be initiated to improve operations, and to affect desirable behaviour of members. These are:

**Strategic change:** A change that changes the very mission of the organization is called strategic change. It may also mean that multiple missions are integrated into a single mission. For instance, if a British company acquires an American company of considerable size, the culture of the British organization may need to change in order to integrate the sensitivities of the American culture into a British organizational setup.

**Structural change:** Of late, organizations are steadily moving towards more decentralized decision-making and a more participative management style. A direct outcome of this structural change is the shift in authority and responsibility to lower levels of management. This has a significant impact on the organization's social

climate wherein members across the board need to acquire skills to make on-the-spot decisions.

**Process-oriented change:** These are changes that could lead to efficiencies and are achieved through replacing or retraining personnel, reducing investment in heavy capital equipment, and amending operational structure. These changes can be achieved through improvement in technology, information processing, automation and use of robotics in the manufacturing operations. These process-oriented changes would affect the organizational culture and lead to changes in the behaviour of staff.

**People oriented change:** While any organizational change has a direct impact on the people, it is important that the behaviour and attitude of employees are aligned with the organization's goals, mission and values. People-oriented changes are focused on performance improvement, team work and commitment to the organization. These traits can be developed through better employee engagement as well as training and development sessions.

### Phases of Transformation

The transformation process goes through essentially five phases:

1. **Dilemma:** This phase is the turning point and the motivating factor for change. One arrives at this phase either because they have an *internal motivation* for change, or external circumstances force them into a serious dilemma. Knowing this factor is very important because each will have a different probability for achieving a successful outcome.
2. **Clarity:** This is the phase where most individuals will stay for extended periods feeling very frustrated and confused. However, with proper help, the time that one spends in this phase will be minimized.
3. **Discovery:** This is the focus of the success formula with relevance to organizational requirement, its principles and business requirements.
4. **Solution:** This is the phase where most people rush to first in their attempt to achieve more. That is precisely why most attempts at change fail. Individuals and organizations will have to participate in some form of learning to make the transformation sustainable.
5. **Success:** The individual or organization has achieved a successful transformation.

### Change Management Process

The organizational changes that are commonly seen in the contemporary world are downsizing or rightsizing, introduction of new technology, mergers and acquisitions. There is a concept of 'planned change' and 'reactive change'. The change which is intentionally designed and implemented is called 'planned change'. The idea for implementing such a change is that it helps to counter intimidation or threat and make the most of opportunities. 'Reactive changes' are caused due to

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unknown factors and happen as a response to sudden surprises like change in the price of a particular product. Hence, a management who is 'proactive' in incorporating changes and that too, with fewer surprises is considered to be way above those who are not. It must build on the organization's strengths and take appropriate preventive action about its weaknesses in order to be competitive in the marketplace. Technology, on the other hand, is a major external force that definitely calls for a systemic change. In recent times, information technology (IT) has contributed considerable in with the impact on the ability of managers to use information to arrive at important decisions. Storage, retrieval of information and its utilization are few aspects of technology.

Organizations must identify the field in which the change is required and should plan to implement change with a methodical approach and ascertain whether it is tactical, structural, process-oriented or cultural. Changes can also be affected in all the areas at the same time as others, but it must be managed appropriately so that there is no blockage effect. The change management process is a series of tasks or phases that a change management team would have to accomplish in order to bring about change within a particular team or an organization on the whole.

Once the need for change is identified the first step would be to develop the goals and objectives, then diagnose the problem followed by electing an agent of change, who is usually a middle-level manager. But at times, the agent can also be employed from outside—a specialist or a consultant. Once a plan has been drawn and strategy for implementation is chalked out, the task would be to implement it. The final stage is crucial as it is important for an organization to understand the response and its effect. It is equally important for the employees to give honest feedback. If the results are contrary to expectations, then a new change may be required to diagnose the cause.

### Check Your Progress

1. List two ways by which companies show commitment to environmental protection.
2. What is strategic change?

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## 14.4 MANAGEMENT OF CRISIS

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Except in very few situations where the conflict can lead to competition and creativity so that in such situations the conflict can be encouraged, in all other cases where conflict is destructive in nature, it should be resolved as soon as it has developed and all efforts should be made to prevent it from developing.

## Preventing conflict

According to Schein, some of the preventive measures that the management can take to prevent conflict are:

**Goal structure.** Goals should be clearly defined and the role and contribution of each unit towards the organizational goal must be clearly identified. All units and the individuals in these units must be aware of the importance of their role and such importance must be fully recognised.

**Rewards system.** The compensation system should be such that it does not create individual competition or conflict within the unit. It should be appropriate and proportionate to the group efforts and reflect the degree of interdependence among units where necessary.

**Trust and communication.** The greater the trust among the members of the unit, the more honest and open the communication among them would be. Individuals and units should be encouraged to communicate openly with each other so that they can all understand each other, understand each other's problems and help each other when necessary.

**Coordination.** Coordination is the next step to communication. Properly coordinated activities reduce conflict. Wherever there are problems in coordination, a special liaison office should be established to assist such coordination.

## Resolving behavioural conflict

Various researchers have identified five primary strategies for dealing with and reducing the impact of behavioural conflict. Even though different authors have given different terminology to describe these strategies, the basic content and approach of these strategies remain the same. These are:

**Ignoring the conflict.** In certain situations, it may be advisable to take a passive role and avoid it all together. From the manager's point of view, it may be especially necessary when getting involved in a situation would provoke further controversy or when conflict is so trivial in nature that it would not be worth the manager's time to get involved and try to solve it. It could also be that the conflict is so fundamental to the position of the parties involved that it may be best either to leave it to them to solve it or to let events take their own course. The parties involved in the conflict may themselves prefer to avoid conflict, especially if they are emotionally upset by the tension it causes. Thus people may try to get away from conflict causing situations.

**Smoothing.** Smoothing simply means covering up the conflict by appealing for the need for unity rather than addressing the issue of conflict itself. An individual with internal conflict may try to 'count his blessings' and forget about the conflict. If two parties have a conflict within the organization, the supervisor may try to calm things down by being understanding and supportive to both parties and appealing to them for cooperation. The supervisor does not ignore or withdraw

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from the conflict nor does he try to address and solve the conflict but expresses hope that 'everything will work out for the best of all.' Since the problem is never addressed, the emotions may build up further and suddenly explode. Thus smoothing provides only a temporary solution and conflict may resurface again in the course of time. Smoothing is a more sensitive approach than avoiding in that as long as the parties agree that not showing conflict has more benefits than showing conflict, then such conflict can be avoided.

**Compromising.** A compromise in the conflict is reached by balancing the demands of the conflicting parties and bargaining in a 'give and take' position to reach a solution. Each party gives up something and also gains something. The technique of conflict resolution is very common in negotiations between the labour unions and management. It has become customary for the union to ask for more than what they are willing to accept and for management to offer less than what they are willing to give in the initial stages. Then through the process of negotiating and bargaining, mostly in the presence of arbitrators, they reach a solution by compromising. This type of compromise is known as integrative bargaining in which both sides win in a way.

Compromising is a useful technique, particularly when two parties have relatively equal power, thus no party can force its viewpoint on the other and the only solution is to compromise. It is also useful when there are time constraints. If the problems are complex and many faceted, and the time is limited to solve them, it might be in the interest of conflicting parties to reach a compromise.

**Forcing.** As Webber puts it, 'the simplest conceivable resolution is the elimination of the other party—to force opponents to flee and give up the fight—or slay them.' This is a technique of domination where the dominator has the power and authority to enforce his own views over the opposing conflicting party. This technique is potentially effective in situations such as a president of a company firing a manager because he is considered to be a trouble-maker and conflict creator. This technique always ends up in one party being a loser and the other party being a clear winner. Many professors in colleges and universities have lost promotions and tenured reappointments because they could not get along well with their respective chairpersons of the departments and had conflicts with them. This approach causes resentment and hostility and can backfire. Accordingly, management must look for better alternatives, if these become available.

**Problem solving.** This technique involves 'confronting the conflict' in order to seek the best solution to the problem. This approach objectively assumes that in all organizations, no matter how well they are managed, there will be difference of opinions that must be resolved through discussions and respect for differing viewpoints. In general, this technique is very useful in resolving conflicts arising out of semantic misunderstandings. It is not so effective in resolving non-communicative types of conflicts such as those that are based on differing value systems, where it may even intensify differences and disagreements. In the long run, however, it is better to solve conflicts and take such preventive measures that would reduce the likelihood of such conflicts surfacing again.

## Resolving structural based conflicts

*Types of Management*

Structural based conflicts are built around organizational environments and can be resolved or prevented by redesigning organizational structure and work-flow. A general strategy would be to move towards as much decentralization as possible so that most of the disputes can be settled at the lower levels in the organization, and faster too.

Since interdependency is one of the major causes of conflict, it is necessary to identify and clarify poorly defined and poorly arranged interdependencies or to make these adequately understood and reliable. This can be achieved through unifying the work-flow. This work-flow can be designed either to increase the interdependencies or to eliminate them entirely. Increased interdependencies can be achieved through more frequent contacts and improved coordinating mechanisms. This would make the two interdependent units act as a single unit thus eliminating the cause of conflict. The other extreme could be to make the two units totally independent of one another. For example, in the case of units building an automobile engine, instead of an assembly line operation in which each person or unit is involved in sequential assembly so that each unit depends upon the work of the previous units, each major unit can work on the entire engine at the same time.

However, these extremes are not in common practice. More often, the strategy would be to reduce the interdependence between individuals or groups. A common approach to do that is by 'buffering'. Buffering requires that sufficient inventories be kept on hand between interrelated units so that they always have the materials to work with thus reducing their interdependency. Another cause of conflict, is the undefined, unclear and ambiguous job expectation. It is important to clarify what each individual and each subunit is expected to accomplish. This would include authority-responsibility relationship and a clear line of hierarchy. In addition, policies, procedures and rules should be clearly established and all communication channels must be kept open so that each person knows exactly what role he has to play in the hierarchical structure. This would avoid situations in which none of the two units does the job because each thought the other was supposed to do or both units do the same job thus duplicating efforts due to misunderstanding. Thus, if each subordinate is fully aware of his responsibility, then such problems would not occur.

How to solve conflict arising due to competition for scarce resources? Conflicts will occur whenever the wants and needs of two or more parties are greater than the sum of the firm's resources available for allocation. These resources may be in the form of a pay raise, promotion, office space, office equipment and so on. This conflict can be reduced by planning ahead about the proper distribution of such resources, instead of making haphazard and last minute allocations.

The conflict between different departments may be managed by establishing liaison. Liaison officers are those who are neutral in their outlook and are sympathetic to both parties and kind of 'speak the language' of both groups. They do not have

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a vested interest in any of these groups. According to studies conducted by Sykes and Bates, it was shown that in one company where there was evident conflict between sales and manufacturing, which are interdependent units, the problem was solved by establishing a demand analysis and sales order liaison office. The liaison group handled all communication for sales and resolved issues such as sales requirements, production capacity, pricing and delivery schedules.

Since one of the major causes of conflict is lack of proper knowledge and facts about how other people think and act, it may be a good idea to let the individuals work with different groups so that they know each other better and understand each other better. Care should be taken however that these individuals are technically capable of fitting in these various groups. This mutual understanding will result in trust and respect thus reducing the likelihood of conflict. This understanding can also be achieved by serving as members of the various committees. As individuals from various work units get to know each other better through the membership in the same committee, it leads to increased tolerance and understanding of different viewpoints as well as a realization that basically all units are pursuing similar objectives and same overall goal.

### **Interpersonal trust building**

While there are a number of behavioural as well as organizational factors, as discussed before, that contribute to the existence of conflict, there may be just one single factor that may be highly contributory to reducing that conflict. This factor is 'trust'. Trust is a highly intangible element but very important in our civilized living. Its presence or absence can govern our inter-personal behaviour to large extent. Our ability to trust has a great impact on our working lives, our family interactions and our achievement of personal and organizational goals.

Since trust is a function of behaviour, such behaviours that lead to defensiveness must be identified and modified. These defensive or aggressive behaviours create a climate that is conducive to mistrust thus leading to conflict in interpersonal areas. Jack Gibb has identified certain behaviours that he calls 'aggressive' behaviours that should be avoided and certain behaviours which he calls 'supportive' behaviours that tend to reduce defensiveness and conflict and should be promoted.

Dr. John K. Stout of the university of Scranton, writing in 'Supervisory Management' (February 1984), suggests that these behaviours are not necessarily mutually exclusive, nor should all the aggressive behaviours be avoided under all circumstances, but in general the supportive behaviour attitudes should be adopted as much as possible. These behaviours are briefly described as follows:

**Evaluative versus descriptive behaviour.** Performance evaluations based upon emotional judgement and tainted by prejudice and residual anger from any previous encounters destroy trust. Making evaluations always brings in subjective opinions and subjective opinions relate to personal relationship rather than operations and facts. Descriptive attitude on the other hand simply describes factual elements that



are visible, observable and verifiable, without reading behind the obvious or making judgements about motives and using the correct words to describe these activities builds up a feeling of fairness, equity and trust and this in turn reduces conflict.

**Controlling versus problem-oriented behaviour.** Controlling attitude is highly authoritative and makes the subordinates feel like machines rather than human beings. The contribution of subordinates is limited to what the controller allows and thus stifles creativity, leading to resentment and conflict.

Problem-oriented behaviour, on the contrary, looks for solutions in which all can participate. This will result in new answers and unique opportunities and this approach implies mutuality that builds dedication and commitment.

**Using a strategy versus spontaneous behaviour.** A strategy is a carefully structured set of directions that gives the management a tool for manoeuvrability so that it can manipulate and gear others towards a predetermined objective and this may be resented by subordinates since they fear loss of autonomy.

Spontaneous interactions on the other hand are open, free flowing and result in open and honest communications in exploring each other's needs and viewpoints, exchanging information and ideas and developing a work environment of mutual trust and caring.

**Neutral versus empathetic behaviours.** Neutral behaviour, though advisable in many situations, is considered as one of indifference and non-caring. All of us need friendship, respect and affections so we always want others to be on our side. Accordingly, the attitude of neutrality seems so impersonal that it is detrimental to the feelings of trust.

Empathy by contrast is the natural desire to get involved with other people, to share their feelings and emotions, to be interested in their needs and problems, to care and to understand them and their beliefs and attitudes and to be sincere and friendly. In this 'me too' environment, a friendly relationship is always welcome.

**Superiority versus equality behaviour.** Feelings of superiority based upon rank, prestige, power and authority are highly threatening to others and if this power is openly exhibited in talk and actions, it creates not only envy but also resentment. For example, the presence of a policeman at your door creates an initial fear because of the power and authority assigned to the police force.

Exhibiting equality, on the contrary, enhances interpersonal trust. We always feel more comfortable in the company of our own age group. A sense of equality reduces the complex of inferiority or complex of superiority, both of which are detrimental to the environment of trust.

**Dogmatic versus open-minded behaviour.** A dogmatic person is one who is set in his own ways and is highly opinionated and does not leave any ground for cultivating genuine interaction with others because genuine interaction is based upon 'give and take' attitude that a highly dogmatic person does not possess. As a result, the relationships remain superficial and trust is shallow, if any.

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The open-minded individual, on the other hand, is adventurous, takes risks and is willing to experiment with new ideas and thoughts. In most bargaining and negotiating sessions, we are always advised to 'keep our minds open', so that we are receptive to any idea for discussion and adaptation. An open-minded person is like an 'open book' and is highly predictable resulting in respect and trust.

These types of supportive behaviours on the part of management prevent conflict to a large degree and help in resolving conflict if it develops, in a mutually beneficial way. This is a win-win situation in which all parties come out as winners. In order to achieve this situation, the management can initiate a number of steps. First, the management must create a social environment in the work situation that is conducive to mutual problem solving. This is fundamental to creating trust among people and specially trust among workers for the management. This would involve open channels of communication, respect for each other's views and an open minded attitude on the part of management. Second, all efforts should be made to make the parties concerned sensitive to each other's attitudes, values and needs. This, according to Nichols and Steven, can be achieved through 'reflective listening' in which the listener is made to repeat what the speaker has said in order to make sure that he has fully understood the speaker's message before speaking himself. This creates a clear understanding of one's opinions and beliefs and this type of clear and properly understood communication leads to respect and trust. Thirdly, the problem causing the conflict can be redefined or revised in such a manner that it becomes a common problem for both parties rather than making it a 'win-lose' situation where one party wins and the other loses. For example, the problem between sales and production can be redefined as a problem of how to best serve the customer, to which both parties have a concern for, making it a problem to be mutually solved. Finally, only such solutions should be accepted that are acceptable to all concerned parties. This is considered to be the best way to 'manage' conflict.

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## 14.5 TOTAL QUALITY MANAGEMENT

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Total Quality Management or 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.

TQM is defined as ‘*a people-focused 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*’. A more general form of definition was put forward in the US in 1992 by the industries, corporate bodies and academic Institutions. This is not a precise definition, but an elaboration of the spirit and purpose of TQM. As per this definition:

Total quality is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. It is a system approach and not a separate program. It is an integral part of high-level strategy; it works horizontally across functions and departments, involves all employees from top to bottom, and extends backward and forward integration to manage the supply chain and customer chain. TQM stresses learning and adaptation to continual change as key to organizational success.

Such a definition embraces some basic and fundamental elements of doing business, such as:

- Customer satisfaction by focusing on customer needs and expectations
- Involvement of all people in the process of TQM
- Reduction in the barriers of functional and departmental boundaries by designing horizontal processes with customer focus
- Empowerment of people for functioning and decision-making
- Emphasis on continual improvement in cost, quality, value-addition and delivery of goods and services for 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 focused 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.

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.

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## Principles of TQM

Principles governing the TQM system are:

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- **‘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 of people:** 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.

## NOTES

### Check Your Progress

3. What is smoothing?
4. Define total quality management.

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## 14.6 STRESS MANAGEMENT

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Stress is a state of mind reflecting certain biochemical reactions in a person's body. It is projected by a sense of anxiety, tension and depression and is caused by such demands by the environmental forces or internal forces that cannot be met by the resources available to the person. The intensity of such demands that require a readjustment of resources or operational styles would determine the extent of stress. Such environmental events or conditions that have the potential to induce stress are known as 'stressors'.

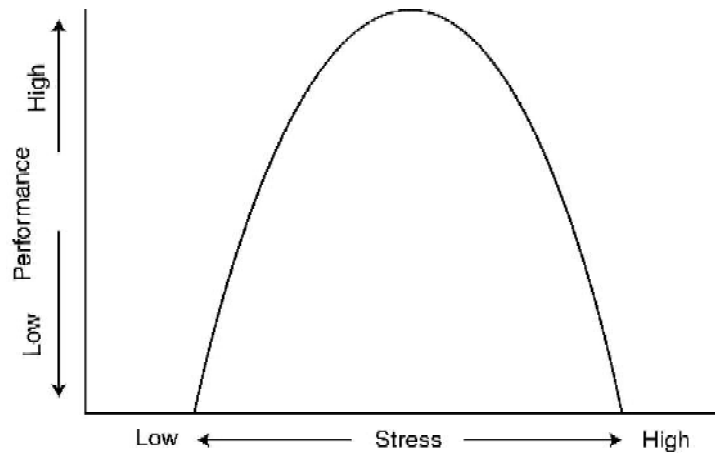
Medical researcher Hans Selye first used the term 'stress' to describe the body's biological response mechanisms. He defined stress as 'the nonspecific response of the body to any demand'. It must be understood that for the stress to occur, the response should be non-specific. All responses require utilization of energy. Any demand made on the body for some specific activity that is natural, expected and a part of daily routine, does not necessarily create stress. Even walking, thinking, writing and doing physical activities that are a part of personal and organizational existence, require energy consumption of the body but are not necessarily stress producing forces.

Stress does not necessarily occur due to undesirable developments. All situations that produce increased demand on a vital activity requiring adaptation to a new situation, produce stress in the form of a stereotyped pattern of biochemical, functional and structural changes in the human organism. These situations could be fear, pain, fatigue, emotional arousal, humiliation, frustration, need for concentration,

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loss of blood, drugs, loss of a loved one, non-occurrence of an expected event and even unexpected successes that require a change in the operational style.

The stress created by desirable and successful events is called ‘eustress’ and the stress created by undesirable outcomes is known as ‘distress’. It is primarily the distress form of stress that requires examination and steps to cope with it. Eustress is a positive, healthy and developmental stress response. Thus, just as tension on muscles causes them to strengthen, some level of stress may lead to better performance and a more adjusted personality. Since we learn how to deal with our problems better, it improves our capacity to confront distress better. However, even though some levels of stress are necessary for psychological growth, creative activities and the acquisitions of new skills such as learning to drive a car or learning the use of a computer, it is the highly stressful situations that weaken a person’s physical and psychological capacity to cope with the stressors that have dysfunctional consequences. Just as high-level stress is damaging to the physical and psychological well-being of the person, extremely low levels of stress are equally undesirable for they cause boredom, and result in lack of stimulation, innovation and challenges. Thus, moderate level of stress is necessary for higher level of performance. Figure 14.1 shows the relationship between the level of performance and the degree of stress.



**Fig. 14.1** Relationship between the Level of Performance and the Degree of Stress

**Source:** Henry, L. Tossi, John R. Rizzo and Stephen J. Carroll. *Managing Organizational Behavior*, 2nd revised edition, Ballinger Publishing Co., 1986, p. 296.

### General adaptation syndrome

The general adaptation syndrome refers to the general development of responses to stressful events in the form of physiological, psychological and behavioural responses believed to follow a fairly consistent pattern and consists of three stages. The first stage is known as ‘alarm’ stage and it occurs at the first sign of stress. It results in physiological changes in the body as a warning and preparation against stress. During this initial stage, muscles become tense, blood pressure rises, pupils dilate, and there is increase in hormone flow such as adrenaline from endocrine

glands. The second stage in bodily responses is that of resistance. In this stage, the body's energies tend to resist the stress so that the physiological and psychological equilibrium can be maintained. If this resistance is successful then the stress will disappear. However, if the stress is of a high degree and continues long enough, then the body's capacity for adaptation becomes exhausted. In the third stage of exhaustion, the person is unable to cope with the stress and the individual experiences physical and mental pressure that result in such illness as continuous headaches, ulcers and high blood pressure. It is this last stage that presents the greatest threat to the individual's well-being.

### **Stress responses**

As briefly mentioned here, in the general adaptation syndrome, the process of stress elicits three types of responses. These are: (1) physiological, (2) psychological and (3) behavioural responses.

#### **1. Physiological responses**

As soon as stress appears, the brain reacts and immediate biochemical changes take place in the heartbeat and heightening of practically all the senses. The long-term physiological effects are more disturbing. Serious health problems occur as body confronts stress over a long period of time. The stress could lead to breakdown in the body's immune systems and may result in serious health problems such as high blood pressure, ulcers and heart attack. In general, according to Baron, 'taking all evidence into account though, it seems reasonable to conclude that high level of stress can result in physical changes that threaten our health and well-being'.

#### **2. Psychological responses**

There are some people who can handle stress better than others. People who tend to be highly affected by stress tend to be depressed and lack self-confidence and self-esteem. They tend to believe that they are helpless and elicit sympathy from others. They have greater fear of the unknown and an increased sense of futility, tension and neurotic tendencies. They become irritated quickly, are impatient and tend to blame everybody else for their own problems. They are more worried about their job security and their job commitment is very low.

#### **3. Behavioural responses**

According to Cohen, people under constant stress behave differently as compared to people who are emotionally well-balanced. Stress is usually associated with increased use of alcohol, smoking, eating and sometimes, drugs. People under stress may gain weight and thus behave differently. Their behaviour becomes highly defensive or highly aggressive towards others and inter-personal relationships are highly affected. Stress induces irritation and lack of patience and these elements are exhibited in behavioural patterns. The person may become an introvert, may withdraw from social situations and may avoid communication with others resulting in social isolation.

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## 14.7 INTERNATIONAL MANAGEMENT

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### NOTES

The modern extent of telecommunications and ease in travel has made the world into one global community. This means that the world is getting smaller and each part of the world is getting closer to the other. Specially, since World War II, people, technology, capital goods and services are crossing international borders like a daily routine. This, has given rise to the pursuit of organizational objectives in an international setting transcending the boundaries of nationalism and cultural groupism.

International management in a true international setting involves management of multi-national corporations. It is an aspect of management which involves conducting business and industrial operations in foreign countries and is affected by cultural and national influences.

The true multinationalism involves more than the movements of investment capital or export of goods, and it involves a free flow of capital, technology, goods and services, information and managerial talent. In addition to import and export of goods and services, the international business transactions may be conducted in any of the following ways:

- (a) *Licensing agreements.* In this type of agreement, a company in a host country may enter into a binding agreement with a particular organization by which the host country organization will produce and sell products under licensing granted by the organization of the home country.
- (b) *Management contracts.* Management contracts involve simply providing managerial talent to the operating foreign companies.
- (c) *Turn-key projects.* This means that an organization provides all services to its foreign country to start a project from the very beginning to the operational level. This involves designing, building, operating and training personnel to take over the project.
- (d) *Joint ventures.* These involve collaborations with local partners or the government of a foreign country in order to establish operations. This means sharing of management and manufacturing capabilities and expertise with the foreign company. This also means sharing of risks as well as profits.
- (e) *Foreign subsidiaries.* These are wholly owned branches of a parent company operating in foreign countries.

In general, a multi-national corporation (MNC) has been defined as:

“An internationally integrated production system over which equity based control is exercised by a parent corporation that is owned and managed essentially by the nationals of the country in which it is domiciled.”

In such cases the headquarters of the multinational enterprise are based in one country (known as home country or parent country) and branches or subsidiaries in one or more countries (called host countries) in such a manner that



the policies are formulated at the headquarters while the operations of the subsidiaries are locally conducted in a fairly independent manner.

*Types of Management*

## **Benefits and Risks of Multinational Enterprises**

### **(A) Benefits**

1. *Lower labour costs.* The labour costs are always lower in under-developed and developing countries and the work-force can be trained equally well for all the skills needed to perform the job. Accordingly, the multinational corporations can concentrate their labour intensive operations in such countries.
2. *Potential for high rate of return on investment.* Higher profit is the major reason why any organization would become global in operation, because these new opportunities are not generally available in the domestic market, either due to saturation or competition and also it is possible to charge higher prices for the product in new markets.
3. *Expanded markets.* A multinational company which has a global base and is worldwide oriented has access to a much larger market for their product. India alone, with a population of 750 million people provides a large market for consumer goods.
4. *Capital resources.* With a broad base of operations, a multinational company has a much wider access to financial resources. Even the governments of many countries provide capital requirements in order to lure the organization to build operational facilities in their countries.
5. *Availability of natural resources.* International activities can increase access to raw materials and other natural resources. Many developing countries have unexplored natural assets that can be highly utilized. Companies operating in many countries thus have a much broader base for raw materials.

### **(B) Risks**

1. *Higher potential for loss of assets by nationalization or war.* As the reality of the situation dictates, the global environment is highly tense with conflicting ideologies, civil wars and political unrest. These developments provide an unsecure environment which justifies reluctance of many multinational companies to take unnecessary risks. Many companies lost their assets in Cuba when it came under communist rule. Extensive losses occurred when Chile became temporarily a communist country etc.
2. *Possible changes in political system or political parties.* Even when the host country has a democratic form of government, the party in power may lose the elections and the alternative party may change the industrial policies that may become unsuitable for a multinational company.

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3. *Possible backlash by host country citizens.* The local citizens may get the feeling that they are being exploited for the benefit of a foreign company. This hostility may exist due to some genuine national concern. For example, during a recent tragedy at Union Carbide plant in Bhopal, India, many people were heard saying. "This could never happen in America", meaning that the safety and the operating standards are not so stringent in the operations of plants in a developing country due to low premium put on the lives of people in the developing countries.
4. *There may be difficulty in retrieving earnings.* Some countries have very strict foreign exchange laws and may change from time to time depending upon the situation of foreign exchange reserves and international balance of payment status. The host countries may require that the earnings be spent within the Country and not be transmitted to the home country.
5. *Lower skill levels and lower motivation in the work force in underdeveloped countries.* The development of skills is a phenomenon which sometimes takes years to perfect. Hastily trained workers are more likely to make costly mistakes. Lower pay levels do not provide adequate incentives to be dedicated to work. The fact that usually higher paying, more responsible and decision making positions are kept by the personnel of the parent company, hardly provides an environment of high morale and motivation.
6. *Global communication and coordination is more difficult to maintain.* Even though the advent of computers and satellites have expanded the communication network, the connections are still very poor in and with the developing countries. That can delay the im-portant decisions for emergencies causing disruptions and losses.

### Check Your Progress

5. What are the three major responses of stress?
6. What is a multinational corporation?

## 14.8 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Two ways by which companies have shown their commitment to environmental protection are as follows:
  - ISO series
  - Eco-management cost audit
2. A change that changes the very mission of the organization is called strategic change.

3. Smoothing simply means covering up the conflict by appealing for the need for unity rather than addressing the issue of conflict itself.
4. Total quality management is a people-focused 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’.
5. There are three major responses of stress. These are physiological, psychological and behavioural.
6. An internationally integrated production system over which equity based control is exercised by a parent corporation that is owned and managed essentially by the nationals of the country in which it is domiciled.

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### **14.9 SUMMARY**

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- Several approaches and initiatives have been taken to protect the environment and contribute towards the larger goal of sustainability. Instruments that have supported the cause include laws and regulations, recycling, environment management system, research and campaigning.
- Change management means implementing significant change in an organized and systematic manner.
- There are two types of changes that occur in an organization — transactional and transformational.
- Except in very few situations where the conflict can lead to competition and creativity so that in such situations the conflict can be encouraged, in all other cases where conflict is destructive in nature, it should be resolved as soon as it has developed and all efforts should be made to prevent it from developing.
- Total Quality Management or 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.
- Stress is projected by a sense of anxiety, tension and depression and is caused by such demands by the environmental forces or internal forces that cannot be met by the resources available to the person.
- International management in a true international setting involves management of multi-national corporations. It is an aspect of management which involves conducting business and industrial operations in foreign countries and is affected by cultural and national influences.

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## 14.10 KEY WORDS

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- **Biofeedback:** It is a methodology designed to alter undesirable physiological responses through psychological strategies.
- **Total Quality Management:** It is a system of management based on the principle that every member of staff must be committed to maintaining high standards of work in every aspect of a company's operations.
- **Compromise:** It is an agreement or settlement of a dispute that is reached by each side making concessions.
- **Stress:** It is a state of mental or emotional strain or tension resulting from adverse or demanding circumstances.

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## 14.11 SELF ASSESSMENT QUESTIONS AND EXERCISES

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### Short-Answer Questions

1. Write a short-note on environment friendly management.
2. What are the objectives of change management?
3. How does stress affect job performance?
4. What are the benefits and risks of multinational enterprises?

### Long-Answer Questions

1. Examine the concept and principles of Total Quality Management.
2. Discuss how crises are resolved within an organization.
3. Describe the strategies to manage stress.
4. Explain the process of managing change in an organization.

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## 14.12 FURTHER READINGS

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