



# **ALAGAPPA UNIVERSITY**

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**MANAGEMENT CONCEPTS**

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## INTRODUCTION

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### NOTES

A number of developments in managerial thinking and processes has taken place in the last few decades. All parts of the world have become closer to each other; the communication networks and 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 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 the management is required to do strategic planning for the near and far future of their respective organizations in order to address 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 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, *Management Concepts*, is divided into thirteen units that follow the self-instruction mode with each unit beginning with an Introduction to the unit, followed by an outline of the Objectives. The detailed content is then presented in a simple but structured manner interspersed with Check Your Progress Questions to test the student's understanding of the topic. A Summary along with a list of Key Words and a set of Self-Assessment Questions and Exercises is also provided at the end of each unit for recapitulation.



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## BLOCK I

### FUNCTIONAL AREA OF MANAGEMENT

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*Management: An  
Introduction*

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## UNIT 1 MANAGEMENT: AN INTRODUCTION

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### NOTES

#### Structure

- 1.0 Introduction
- 1.1 Objectives
- 1.2 Nature of Management
  - 1.2.1 Scope of Management
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### 1.0 INTRODUCTION

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Management is the administration of an organization, whether it is a business, a not-for-profit organization, or government body. Where there is human activity, whether individual or joint, there is management. The process of management can be noticed in all spheres of life. Management is a set of principles relating to the functions of planning, organizing, directing and controlling, and the application of these principles in harnessing physical, financial, human and informational resources efficiently and effectively to achieve organizational goals. In this unit, you will define the nature, functions, and importance of management. This unit will also discuss the evolution of management thought.

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### 1.1 OBJECTIVES

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

- Define the nature, functions, and importance of management
- Explain management as a social science
- Discuss F.W. Taylor's principles of scientific management
- Explain the concept behavioural approach

## NOTES

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## 1.2 NATURE OF MANAGEMENT

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No doubt management, as an academic body of knowledge has come a long way in the last few years. It has grown and gained acceptance all over the world. Yet, the term 'management' continues to be the most misunderstood and misused. A study of the process of management reveals the following points about the nature of management:

### **Management is a universal process**

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

### **Management is a factor of production**

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

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

### **Management is goal oriented**

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

### **Management is supreme in thought and action**

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

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

### **Management is a group activity**

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

**Example:** A marketing manager is responsible for increasing the sales of the products of any organization; human resources manager is responsible for recruiting new people, developing organizational policies for the employees, etc.

### **Management is a dynamic function**

Management is a dynamic function of a collective enterprise, which is constantly engaged in casting and recasting the enterprise in the world of an ever-changing business environment. Not only this, it sometimes also initiates moves that reform and alter the business environment. If an enterprise is well equipped to face the changes in business environment brought about by economic, social, political, technological or human factors, it can soon adapt itself to a changed environment or make innovation to attune itself to it.

### **Management is a social science**

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

### **Management is an important organ of society**

Management shares a direct relationship with society. While the society influences the managerial actions, managerial actions also influence society. By their decisions, management of large undertakings influence the economic, social, political, religious, moral and institutional behaviour of the members of society. This creates an impact on the social and moral obligations of business management which cannot be easily ignored.

### **Management is a system of authority**

It is the job of management to bring about a harmonious arrangement and pattern among the different resources employed in an undertaking. In fact, management's role as a factor of production forces itself to be methodical in plans and procedures and on the other hand systematic and regular in their implementation. For this, it is necessary that the authority vested in the management is to be exercised properly and correctly. Therefore, this calls for well-defined lines of command and delegation of suitable authority and responsibility at all levels of decision making.

## **NOTES**

## NOTES

### Management as a profession

Management makes judicious use of all available means to accomplish certain predetermined ends. To achieve this successfully, managers need to possess managerial knowledge and training. Moreover, they have to conform to a recognized code of conduct and remain conscious of their social and human obligations. Managers are well paid and well provided by the organization for their work. Moreover, they enjoy considerable social prestige too.

### Management as a process

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

Ordinarily there are two main functions of each manager—decision-making and implementation of the decisions. Collectively, these two fall under the management process. The processes such as planning, organizing and actuating involved in the achievement of business goals together form the management process.

#### 1.2.1 Scope of Management

Management is an essential component of all social organizations and is to be found everywhere as a distinct, separate and dominant activity. The importance of management cannot be over, emphasized. The significance of 'management' may be outlined in the following paragraphs:

- 1. Meeting the challenges of change:** In recent years, the challenge of change has become intense and critical. Only scientific management can overcome the complexities of modern business.
- 2. Effective utilization of the Seven Ms:** There are seven Ms in business: men, materials, money, machines, methods, markets and management. Management stands at the top of all these Ms. It determines and controls all other factors of business.
- 3. Development of resources:** Good management procures good business by creating vital dynamic and life-giving force in the organization.
- 4. Providing management directs the organization:** Just as the mind directs and controls the body to fulfil its desires, management directs and controls the organizations to achieve the desired goal.

- 5. Integrate various interests:** There are various interest groups that put pressure over other groups for maximum share in the total output. Management balances these pressures and integrates the various interests.
- 6. Management provides stability:** In the modern society, management provides stability by changing and modifying the resources in accordance with the changing environment of the society.
- 7. Management provides innovation:** Management provides new ideas, imaginations and visions to the organization and necessary life for better and greater performance.
- 8. Management provides coordination and establishes team spirit:** Management co-ordinates the activities of the different departments in an enterprise and establishes team spirit amongst the personnel.
- 9. To tackle business problems:** Good management serves as a friend, philosopher and guide in tackling business problems. It provides a tool for doing a task in the best possible manner.
- 10. A tool of personality development:** Management is necessary not only for productivity, but also for improvement in the efficiency of mankind. Management helps improve the personality of people and therefore attempts to raise their efficiency and productivity.

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### 1.2.2 Functions of Management

There are basically five primary functions of management. These are as follows:

1. Planning
2. Organizing
3. Staffing
4. Directing
5. Controlling

The controlling function comprises coordinating, reporting and budgeting. Hence, if this function can be broken into three separate functions coordinating, reporting and budgeting. Based upon these seven functions, Luther Guelick coined the word POSDCORB, which generally represents the initials of these seven functions. All the primary functions are explained and discussed as follows.

#### Planning

Planning is future oriented and determines an organization's direction. It is a rational and systematic way of making decisions today that will affect the future of the company. It is a kind of organized foresight as well as corrective hindsight. It involves predicting 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 future.

**Example:** Business planning, project planning, strategic planning (vision, mission), communications plans, research design planning, etc.

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### Organizing

Organizing requires a formal structure of authority and the direction and flow of such authority through which work sub-divisions are defined, arranged and coordinated so that each part relates to the other part in a united and coherent manner so as to attain the prescribed objectives. Thus, the function of organizing involves determining the activities that need to be done in order to reach 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 the function of organizing is concerned with:

1. Identifying the tasks that must be performed and grouping them whenever necessary
2. Assigning these tasks to the personnel while defining their authority and responsibility
3. Delegating the authority to these employees
4. Establishing a relationship between authority and responsibility
5. Coordinating these activities.

### 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.

### 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, in order to achieve the desired goals. The leadership element involves issuing the 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 from them. Motivation 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.

## Controlling

The controlling function consists of those activities that are undertaken to ensure that the events do not deviate from the prearranged plans. The activities consist of establishing standards for work performance, measuring performance and comparing it to these set standards and taking corrective actions as and when needed, to correct any deviations. All these five functions of management are closely interrelated. However, these functions are highly indistinguishable and virtually unrecognizable in a job. It is necessary, though, to put each function separately into focus and deal with it.

## Principles of Management

The principles of management were essentially laid down by the theorist Henry Fayol, who is considered the father of modern management theory. According to him, there are basically 14 principles of management. These are:

1. Division of work
2. Authority and responsibility
3. Discipline
4. Unit of command
5. Unity of direction
6. Subordination of individual interest to general interest
7. Remuneration of personnel
8. Centralization
9. Scalar Chain
10. Order
11. Equity
12. Stability of tenure of personnel
13. Initiative
14. Esprit de corps

These 14 principles will be discussed later on in the unit.

### Check Your Progress

1. Define the term 'management'.
2. State the seven Ms in business.
3. What are the five primary functions of management?
4. What is the function of organizing?

## NOTES

## NOTES

### 1.3 EVOLUTION OF MANAGEMENT THOUGHT

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

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

#### Advantages of Classical Approach

The advantages of the classical approach are as follows:

1. It focuses on what managers actually do.
2. It highlights the universal nature of management.
3. It provides a scientific basis for managerial practice.
4. It provides a starting point for researchers to verify the validity and to improve the applicability of management thought.

#### Disadvantages of Classical Approach

The disadvantages of classical approach are as follows:

1. It ignores the environmental changes and their effect on management.
2. It relies too much on the past experience. The technique or principle found effective in the past may not be effective in the future.
3. It is based on oversimplified assumptions. Its principles are ambiguous and contradictory.
4. It offers a mechanistic framework that undermines the role of the human factor.

This approach is based on three main pillars:

1. Bureaucracy



2. Scientific Management
3. Administrative Theory

### **Bureaucracy**

Max Weber, a German social scientist, analysed the formation and administration of enterprises. The main features of this approach are as follows:

1. **Division of work:** There is division of work on basis of specialisation of jobs in bureaucratic organizations. Each employee performs his specialised work in a predictable manner.
2. **Rules and regulations:** Detailed rules and regulations regarding work behaviour, rights and duties of employee are laid down. Rules are designed to ensure the consistency and predictability in work performance. In addition to it, procedures are laid down for orderly performance of tasks.
3. **Hierarchy of authority:** Hierarchy in organizations is characterised by downward delegation of authority. Each superior exercises control over his subordinates. The authority flows from the top level to lower levels of management.
4. **Technical competence:** Selection and promotion of employees are based on the technical competence of employees. For each job, the qualifications are prescribed. Training is also provided to familiarise the employees with the rules and administrative procedures of the organization.
5. **Record keeping:** Every decision and action is recorded in its original as well as draft form.
6. **Impersonal relations:** Superiors are formal in dealings with their subordinates.

### **Advantages of Bureaucracy**

1. **Specialization:** A bureaucratic organization provides the advantages of specialisation because every member is assigned a specialised task to perform.
2. **Structure:** A structure of form is created by specifying the duties and responsibilities and reporting relationships within a command hierarchy. Structure sets the pace and framework for the functioning of the organization.
3. **Rationality:** A measure of objectivity is ensured by prescribing in advance the criteria for decision-making in routine situations.
4. **Predictability:** The rules, regulations, specialisation, structure and training impart predictability and thereby ensure stability in the organization. Conformity to rules and roles in the structural framework bring about order to cope with complexity.

### **NOTES**

## NOTES

- 5. Democracy:** Emphasis on qualifications and technical competence make the organization more democratic. Officials are guided by the prescribed rules, policies and practices rather than by patronage or other privileged treatment.

### Limitations of Bureaucracy

- 1. Rigidity:** Rules and regulations in a bureaucracy are often rigid and inflexible. Rigid compliance with rules and regulations discourages initiative and creativity. It may also provide the cover to avoid responsibility for failures.
- 2. Goal displacement:** Rules framed to achieve organizational objectives at each level become an end in themselves. When individuals at lower levels pursue personal objectives, the overall objectives of the organization may be neglected.
- 3. Impersonality:** A bureaucratic organization stresses a mechanical way of doing things. Organizational rules and regulations are given priority over an individual's needs and emotions.
- 4. Compartmentalisation of activities:** Jobs are divided into categories, which restrict people from performing tasks that they are capable of performing. It also encourages preservation of jobs even when they become redundant.
- 5. Paperwork:** Bureaucracy involves excessive paperwork as every decision must be put into writing. All documents have to be maintained in their draft and original forms. This leads to great wastage of time, stationery and space.
- 6. Empire building:** People in bureaucracy tend to use their positions and resources to perpetuate self-interests. Every superior tries to increase the number of his subordinates as if this number is considered a symbol of power and prestige.
- 7. Red tape:** Bureaucratic procedures involve inordinate delays and frustration in the performance of tasks.

Despite its drawbacks, bureaucracy has become an integral feature of modern organizations. It is, therefore, necessary to understand it and to overcome its negative aspects through proper reckoning of individual needs and organizational goals.

### The Scientific management stage

The first stage of management identified in the United States was scientific management, which was started by Taylor. But there were some precursors to Taylor who made some significant contributions.

James Watt. Jr. and Mathew Rabinson Boulton, who invented and developed the steam engine, were the earliest users of scientific approach to management. They managed the Soho Engineering Foundry in Great Britain from 1876 and

developed quite a number of management systems. They developed the processes of market research and forecasting, planning machine layout and standardisation of components. They also developed some important casting systems, training and development programmes, welfare programmes, productivity based payments and so on.

Robert Owen was another pioneer of the early Nineteenth century. He concentrated on the personnel side and carried out many experiments. He is rightly referred to as the father of modern personnel management. He improved the working conditions and incurred benefits as he thought that these would improve productivity.

Charles Babbage, known as the father of the computer invented the mechanical calculator. He wrote a book entitled, *On the Economy of Machinery and Manufacturers* published in 1832. He was more interested in the economics of division of labour and developed scientific principles regarding this.

Another important personality was Henry Varnum Poor, who as the editor of the American Railroad Journal, emphasised on the need for a managerial system and a clear organizational structure.

It was only with the advent of Frederick W. Taylor and his work, *The Principles of Scientific Management* published in 1911, that greater attention was paid to scientific management as a separate discipline.

Industrial problems increased due to the advent of large-scale factory systems, mass production and mechanisation. People needed some specific principles and methods for solving the problems they faced. The initial impetus in the scientific management movement was Taylor. He was more concerned with the engineering aspect and the problems of workers and productivity oriented wages.

Then came Henry Fayol, who is known as the father of the Modern Operation Management Theory. He, as a Frenchman, developed management theory and its principles and published his book in French and it was translated into English later.

Taylor and Fayol both realised that working towards the problems of personnel and its management at all levels was the key to industrial success. Both applied scientific methods to the problems they faced while dealing with personnel and management. Taylor worked primarily on the operative level moving upwards in the industrial hierarchy, while Fayol concentrated on the managing director level and worked downwards. This shows us the difference in the working of Taylor and Fayol. Taylor and Fayol gave France a unified management body more than twenty years before the same ideology began to be realised in Great Britain.

There were also some important figures among the followers of Taylor. One of them was Carl George Barth who developed mathematical techniques. Other one was Henry L. Gantt who is best known for developing graphic methods for depicting plans and making possible better managerial control. Also, there were Frank and Lillian Gilbreth who concentrated on reducing the motions involved in

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doing a particular task. Finally, there was Edward A. Filene who hired Gilbreth to help him apply scientific management methods to his family's Boston department store.

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### **Major Schools of Management Thought**

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

1. Management process schools
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

### **Management Process School or the Operational Approach**

This school regards management as a process of getting things done with people operating in organized groups. Henry 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.

### **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 Ralieu, Urwick and many other management practitioners and associations like the American Management Association.

The main features of this approach are as follows:

1. Management is the study of managerial experiences.
2. Managerial experiences can be passed over to the practitioners and students.

3. The techniques used in successful cases can be used by future managers for further references.
4. Theoretical research can be combined with practical experiences for better management.

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### Bank Wiring Room Studies

During the early part of the century, American businesses were swept by Scientific Management, a school of thought largely developed by Frederick Taylor. He pioneered the use of time and motion studies in which management may carefully break down tasks into simple chunks and then, work out the best way for a worker to execute the chunks. The worker then executed their jobs exactly as they were told.

As part of the Scientific Management regime, companies routinely studied the effects of the physical environment on their workers.

The Hawthorne studies were carried out by the Western Electric Company at their Hawthorne plant in the 1920s. Initially, the study focussed on lighting. Finally, the following two things emerged from the initial studies:

- A. Experimenter effect
- B. Social effect

The experimenter effect was that workers interpreted making changes as a sign that management considered which provided some mental stimulation that was good for morale and productivity. The social effect was that by being separated from the rest and being given special treatment, the experimenters developed a certain bond and camaraderie that also increased their productivity. The second phase of the study, the Bank Wiring Room, was designed to study these social effects.

The experimenters called in some anthropologists from Harvard, Mayo, and Warner to help design a study. They put some workers in a special room, and placed a full time observer in the room to record their activities.

The workers were required to assemble the telephone switching equipments. The process was broken down into three tasks: wiring, soldering and inspection.

For the first few days, workers did not respond to the observer. This included talking, fighting, playing games, teasing and job trading. It took three weeks for their normal behaviour to resume.

Besides looking at the social organization of the group, they kept track of performance variables such as quality of work and amount of work. Even though they were paid on the basis of the amount of work done each day, they did not raise outputs. If somebody tried, others gave him a lot of criticism. They were afraid that if they start producing more, the company might change the base rate of the pay.

The wiremen worked on selectors rather than connectors. Inspectors were more educated and slightly higher status but were considered outsiders.

### **The Human Relations Approach (or) the Human Behaviour School**

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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. This approach has been called the human relations, leadership or behavioural science approach. Exponents of this school of thought seek to apply existing and newly developed theories, methods and techniques of the relevant social science to the study of intra and interpersonal relations, which varies from personality dynamics to relations of cultures. This school stresses on the people part of management and the understanding aspects. The motivation of the individual and adherents of this school is heavily oriented towards psychology and sociology. The range of thought in this school are (a) The study of human relations and how managers can understand and use these relations; (b) The role of manager as a leader and how he should lead others; (c) The study of group dynamics and inter-personal relationships.

From the early 1930s and the Hawthorne experiments, there has been a great generation of interest in the human behaviour school. Human behaviour must be recognised as a key and it is one of the most important factors in the development of employees. There is great agreement on the point that human beings have goals and value for certain needs. We do find people exercising their material instincts such as valuing job security, striving for organizational and social acceptance and working for monetary rewards, which of course, can be used to satisfy several needs. The human behaviour school of thought sometimes goes too far in insisting that the employees of an organization need to be happy for the organization to function effectively. Managers have to take a middle position in their approach to the human behaviour aspects of management. If employees are doing a poor job, managers should ensure that the employees are demoted or disciplined in some manner. Without recognition and reward, employees lack motivation to do a job.

### **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 the late Chester Barnard who developed the theory of co-operation. The focus of this school of thought is on the study of the organization as a co-operative or collaborative system. A social system is a unit or entity consisting of various social subsystems called groups.

## **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. The scientific approach to decision making involves some of the following factors:

1. Defining the problem
2. Collecting all relevant information
3. Developing alternatives
4. Examining all the alternatives and the solutions
5. Testing the solutions, (if you can make this possible)
6. Selecting a course of action
7. Implementing the action.
8. Evaluating the results of the action

## **The Systems Approach School**

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

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

The boundary of a system may be classified into two parts, such as follows:

1. Closed system that has no environment. This part implies that no outside systems are to be considered.

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2. Open system that has an environment. This part implies that it possesses systems with which it relates, exchanges and communicates.

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.

### **The Contingency Approach School of Management**

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

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

Contingent thinking helps managers in several ways in performing their function of planning, organising, direction and control. It widens their horizons beyond the theory of management and its concepts, principles, techniques and methods. It helps them to broaden their approach from mere technique orientation to problem-situation orientation. It leads them to be sensitive, alert and adaptive to situation behavioural variables, while tailoring their approaches and styles. It guides them to adopt open system viewpoints and to look at things and situations in an integrated and multi-dimensional manner. Moreover, moving away from contingency thinking enlarges the art of freedom of operation of managers. They do not have to apply same methods, practices and processes to diverse situations, they can think of innovating new approaches or a blend of known approaches on the basis of their compatibility and context. For example, different structural designs are valid for different strategic and tactical needs of organizations on one hand and realities of the situations on the other. This was demonstrated by Joan Woodward in her research studies.

### **Contribution of F.W. Taylor—Scientific management**

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

Taylor is called the father of scientific management. His experience from the bottom-most level in the organization gave him an opportunity to know at first the problems of the workers. Taylor's principal concern was that of increasing efficiency



in production, not only to lower costs and raise profits, but also to make possible increased pay for workers through their higher productivity.

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

### **F.W. Taylor's Principles**

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

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

Now, in its essence, scientific management involves a complete mental revolution of the part of the working man engaged in any particular establishment or industry. This complete mental revolution focuses on the duties of the organization toward its work, toward its fellowmen and towards its employees, and it involves an equally complete mental revolution on the part of those on the management’s side, which involve the foreman, superintendent, owner of the business, board of directors, and so on. The great mental revolution that takes place in the mental attitude of the two parties under scientific management is that both sides take their eyes off the division of the surplus as an important matter and together turn their attention toward increasing the size of the surplus, which becomes so large that it is unnecessary to quarrel over how it should be divided. They come to see that when they stop pulling against one another and instead both turn and push shoulder to shoulder in the same direction, the size of the surplus created by their joint efforts is truly appreciable. When friendly co-operation and mutual helpfulness replace antagonism and strife, it becomes possible for both the parties to make the surplus so enormous that there is ample room for a large increase in wages for the workmen and an equally great increase in profits for the manufacturer.

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

- Replacing rule of thumb with science

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

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

### Contribution of Henry Fayol—Principles of Management

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

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

- **Division of work:** This is the principle of specialization, which is very well expressed by economists as being a necessary factor for efficiency in the utilisation of labour.
- **Authority and responsibility:** In this principle, Fayol conceives authority as a combination of official authority deriving from a manager's official position and personal authority, which is compounded of intelligence, experience, moral worth, past services etc.
- **Discipline:** Holding the notion that discipline is 'respect for agreements which are directed as achieving obedience, application, energy and the outward marks of respect', Fayol declares that discipline requires good superiors at all levels, clear and fair agreements and judicious application of penalties.
- **Unit of command:** This is the principle, which states that an employee should receive orders from one superior only.
- **Unity of direction:** According to Fayol, the unity of direction principle implies that each group of activities having the same objectives must have

one head and one plan. As distinguished from the principle of unity of command, Fayol perceives unity of direction as related to the functioning of personnel.

- **Subordination of individual interest to general interest:** In any group, the interest of the group should supersede that of the individual. When the interests differ, it is the function of the management to reconcile them.
- **Remuneration of personnel:** Fayol perceives that remuneration and methods of payment should be fair and also should be able to afford the maximum satisfaction to employee and employer.
- **Centralization:** Although Fayol does not use the term, Centralization of Authority, his principle definitely refers to the extent to which authority is concentrated or dispersed in an enterprise. Individual circumstances determine the degree of centralization that gives the best overall yields.
- **Scalar Chain:** Fayol thinks of the scalar chain as a line of authority, a chain of superiors from the highest to the lowest ranks. And, because it is an error of a subordinate to depart needlessly from the lines of authority, the chain should be short-circuited.
- **Order:** Breaking this principle into material order and social order, Fayol thinks of it as a simple edge for everything. This organization is the principle, which refers to arrangement of things and persons in an organization.
- **Equity:** Fayol perceives this principle as one of eliciting loyalty and devotion from personnel with a combination of kindness and justice in managers while dealing with subordinates.
- **Stability of tenure of personnel:** Finding that instability is both the cause and effect of bad management, Fayol points out the dangers and costs of unnecessary turnover.
- **Initiative:** Initiative is conceived as the process of thinking out and executing a plan. Since it is one of the keenest satisfactions for an intelligent man to experience, Fayol exhorts managers to sacrifice personal vanity in order to permit subordinates to exercise it.
- **Esprit de corps:** This principle implies that union is strength and an extension of the principle of unity of command. Fayol here emphasises on the need for teamwork and the importance of communication in obtaining it.

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### Henry L. Gantt (1861-1919)

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

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

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

### The 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. Hawthorne studies (1924-1932) were conducted to determine the effect of better physical facilities on workers' output. These studies showed that better physical environment or increased economic benefits in itself were not sufficient motivators in increasing productivity. In effect the emphasis shifted to psychological and social forces, in addition to economic forces. Mayo discovered that when workers are given special attention by management, the productivity is likely to increase irrespective of actual changes in the working conditions.

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

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

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

According to Maslow, these needs fall into a hierarchy. At the bottom of the hierarchy are the lower level needs such as Physiological and safety needs. At the top are higher level needs such as need for respect and self-fulfilment. In general,

the lower level needs must be satisfied before the higher level needs arise. Being aware of these needs enables a manager to use different methods to motivate workers. This is important and significant because of the complexity of man's nature. Different people will react differently to the same situation. Or, their reaction may be similar to different situation. Hence, the management must be aware of these differences and react accordingly.

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

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

### **Contribution of Peter F. Drucker—MBO**

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 any 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 block countries. His views on management may be summarised as follows:

#### **Management as a Practice**

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

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

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organizations are knowledge-based organizations and describes the modern workers as knowledge workers considering their skills and innovative abilities.

### Functions of Management

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

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

### Objective Setting

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

### Relevance of management to different types of organizations

Management skills are a very important skill that is required in almost every single business discipline. This also includes the healthcare sector where having poor management is a matter of life and death for patients. The significance of management skills in healthcare cannot be underestimated as hospitals and their staffs needs to be professionally maintained with proper specialised training.

Hospital health care managers must oversee a variety of departments. For this reason, they must be able to create unique approaches to many challenging situations in order to ensure that the hospital is not only successful but also profitable.

Today, to cope with the transformation of the higher education sector, and in order to position themselves in teaching and research on the global market, as well as to prevail against the competition, universities compete for professors, students and external funds.

Without a management, a company cannot run it'll fall on its face similarly education sector also needs internal as well as external management to keep providing their services to the society. And to handle this all in various levels and departments managers perform their role to secure its safe running.

Management is the key to a successful business. Every business, either big or small requires a good management, strategic and organized unit of people who can provide the insight and plan the future of a successful business. The constant development in the hospitality industry have had made hotel owners to think and agree with the importance of better hotel hospitality management system in their business. In the last few years hotel hospitality industry has seen a steep rise in the influx of consumers. Now, the increase in the number of the customers mean the hotel administration has to create better facility, services and quality environment to absorb the customers. Handling a single consumer is far easier than providing quality services to 10-20 guests at a time with different needs.

The purpose of a competitive hotel management system is to assess the situation and then plan out strategic reforms to better the quality of the hotel business.

In the recent times there are many effective technologies which have come up for the hotel industry to ease the work load. The technology can prove beneficial for a hotel business but the implementation require a competitive hotel hospitality management system in achieving the better result from the adaptation of technology.

The Management in Non-Governmental Organizations Programme aims to develop the managerial skills of those responsible for the organizations, promote the strategic management of the entities, and strengthen the leadership of the teams as well as the attraction of economic resources for have a growing social impact.

Successful NGOs provide high quality services to beneficiaries. Competition among NGOs in the delivery of services and in the acquisition of donor funding is rising. To achieve success, NGOs have to continually improve and professionalise their work, which puts more and more demands on the management and leadership of an organization.

#### Check Your Progress

5. What are the main features of the classical approach?
6. Mention some of the advantages of bureaucracy.
7. Who is the father of scientific management?

### 1.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Management is the administration of an organization, whether it is a business, a not-for-profit organization, or government body.
2. There are seven Ms in business: men, materials, money, machines, methods, markets and management.
3. The five primary functions of management are as follows:
  - Planning

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- Organizing
- Staffing
- Directing
- Controlling

4. The function of organizing involves determining the activities that need to be done in order to reach 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.
5. The main features of the classical approach are as follows:
  - Formal education and training are emphasised for developing managerial skills in upcoming managers.
  - Emphasis is placed on economic efficiency and the formal organization structure.
  - People are motivated by economic gains. Therefore, the organization controls economic incentives.
6. Some of the advantages of bureaucracy are as follows:
  - **Specialization:** A bureaucratic organization provides the advantages of specialisation because every member is assigned a specialised task to perform.
  - **Structure:** A structure of form is created by specifying the duties and responsibilities and reporting relationships within a command hierarchy. Structure sets the pace and framework for the functioning of the organization.
  - **Rationality:** A measure of objectivity is ensured by prescribing in advance the criteria for decision-making in routine situations.
7. F.W. Taylor is called the father of scientific management.

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## 1.5 SUMMARY

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- The basic nature of management activity remains same in all arenas, whether the organization to be managed is a family, a club, a trade union, a trust, a municipality, a business concern or the government.
- The most important goal of all management activity is to accomplish the objectives of an enterprise.
- Management is a dynamic function of a collective enterprise, which is constantly engaged in casting and recasting the enterprise in the world of an ever-changing business environment.



- It is the job of management to bring about a harmonious arrangement and pattern among the different resources employed in an undertaking.
- Management is an activity consisting of a distinct process, which is known as the management process.
- Planning is future oriented and determines an organization's direction.
- Organizing requires a formal structure of authority and the direction and flow of such authority through which work sub-divisions are defined, arranged and coordinated so that each part relates to the other part in a united and coherent manner so as to attain the prescribed objectives.
- Staffing is the function of hiring and retaining a suitable workforce for the enterprise both at managerial as well as non-managerial levels.
- The directing function is concerned with leadership, communication, motivation and supervision so that the employees perform their activities in the most efficient manner possible, in order to achieve the desired goals.
- The controlling function consists of those activities that are undertaken to ensure that the events do not deviate from the prearranged plans.
- The first stage of management identified in the United States was scientific management, which was started by Taylor.
- The contingency approach to management emphasises on the fact that management is a highly practice-oriented and action-packed discipline.
- 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.
- Henry Fayol is claimed to be the real father of modern management. He was a Frenchman born in 1841 and was working as an engineer with a mining company.
- 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.

## NOTES

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### 1.6 KEY WORDS

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- **Management process:** Management process is a process of setting goals, planning and/or controlling the organizing and leading the execution of any type of activity, such as: a project or a process.
- **Planning:** Planning is future oriented and determines an organization's direction. It is a rational and systematic way of making decisions today that will affect the future of the company.

## NOTES

- **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.
- **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, in order to achieve the desired goals.

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### 1.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short Answer Questions

1. Write a short note on the nature of management.
2. Define management as a process.
3. What is the importance of management in a business?
4. What are the advantages and disadvantages of the classical approach?
5. What is the process of MBO?

#### Long-Answer Question

1. Explain management as a social science.
2. Discuss the five primary functions of management.
3. Describe the essential features of the systems approach school.
4. Discuss F.W. Taylor's principles of scientific management.
5. Explain the concept behavioural approach.

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### 1.8 FURTHER READINGS

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## UNIT 2 PLANNING

### Structure

- 2.0 Introduction
- 2.1 Objectives
- 2.2 Nature and importance of Planning
  - 2.2.1 Strategic Considerations in Planning
  - 2.2.2 Components of Planning as Objectives
- 2.3 Planning Process, Methods and Premises
  - 2.3.1 Limitations of Planning
- 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

### NOTES

## 2.0 INTRODUCTION

In organizations, planning can become a management process, concerned with defining goals for a future direction and determining on the missions and resources to achieve those targets. To meet the goals, managers may develop plans such as a business plan or a marketing plan. Peter Drucker, a pioneer of modern management, defines planning as:

‘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 expectation through organized, systematic feedback.’

In this unit, you will discuss the nature and importance of planning. This unit will also explain the process of strategic planning. You will also describe the various limitations of planning.

## 2.1 OBJECTIVES

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

- Discuss the nature and importance of planning
- Explain the process of strategic planning
- Describe the various limitations of planning
- Define the planning process, methods and premises

## 2.2 NATURE AND IMPORTANCE OF PLANNING

In this section, we will discuss the nature and importance of planning.

### NOTES

#### The Six Ps of Planning

The six Ps of planning are purpose, philosophy, premise, policies, plans, and priorities. An effective planning system requires a clear understanding of the purpose of an organization's existence. Philosophy incorporates the fundamental beliefs as to how the organization purpose is to be achieved. **Premise** involves the strengths and weaknesses of the organization, and **policies** are the general guidelines that aid management thinking and action. **Plans** represent specific objectives and action statements. Since resources are mostly limited, they should be allotted to goods of priority coal prioritization would determine an appropriate allocation of resources.

#### Importance of Planning

While planning does not guarantee success in achieving 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 modern business with the 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 business environment. Since planning takes a future outlook, it takes into account the 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. The objectives provide a direction and all planning decisions are directed towards achievement of these objectives. Plans continuously reinforce the importance of these objectives by focusing on them. This ensures maximum utility of the 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.

### **Planning helps in 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 take routine decisions about current activities since the objectives, plans, policies, schedules, etc., are clearly laid down.

#### **2.2.1 Strategic Considerations in Planning**

Strategic planning is the process of planning as to how to achieve the organizational goals with the available resources and is undertaken by the central management of the organization. Strategic planning is necessary and important for the following reasons:

1. First, there are a large number of external variables—whose values do not remain constant—that affect the operations of the organization. These variables include: changing international environment, political and governmental policies and forces, economic trends, competition tactics, technological changes and social dynamism. Strategic plans must have provisions to cope with these situations.
2. Secondly, all natural resources are becoming scarce. The management must decide on how to compete for these resources and how to allocate them properly. The human resources are constantly changing in nature. There is more and more of an educated workforce and most of the routine and repetitious work is being taken over by computers and robotics. Hence, a proper redistribution of human resources must be properly put into focus.
3. Thirdly, there has been an information explosion which has necessitated increase in knowledge and ability to plan effectively. Since, effective strategic planning ensures success, all competitive forces are contributing a lot of their energies in perfecting these plans thus generating an absolute necessity to introduce strategic planning in most companies.

## **NOTES**

## Strategic Planning Process

Similar to the formal planning process, the process of strategic planning can be considered to constitute the following steps:

### NOTES

- 1. Define and express clearly the mission of the organization:** The mission must be clearly understood. It could be high-quality product at low cost. It could be high-quality product at high cost to have and keep a quality-oriented image like Rolls Royce or Mercedes Benz automobiles.
- 2. Determine long-range goals and objectives:** These would be more specific in nature, but in accordance with the general mission of the organization. These could include the types of products the company wants to produce and promote and the long-term profit potential.
- 3. Make predictions about the economic environment in the future:** This would involve the use of some forecasting techniques to predict the growth of the company's market share.
- 4. Develop a long-range plan:** This may extend to 10 years in time. This strategic plan would involve the definition and description of all actions that would be taken in order to achieve the company objectives.
- 5. Develop short-range plans:** Within the structure of strategic plans, it is important to break it up into short periods, e.g., a plan for a period of one year. These plans would also provide for periodic evaluation of the strategic plans so that corrective action can be taken if there are any deviations. Such a revised long-range strategic plan would reflect the effect of current conditions on the plan.

### Types of strategies

A strategy is an action plan that sets the direction that a company will be taking. A strategy is a decision-making choice and would involve consideration for external environment affecting the company as well as the internal environment of strengths and weaknesses of the company. According to William F. Guelick, there are four strategies: stability, growth, retrenchment or a combination approach.

- 1. Stability strategy:** Stability strategy implies, 'to leave the well enough alone'. If the environment is stable and the organization is doing well, then it is better to make no changes. An example of stability strategy would be an organization that would be satisfied with the same product, serving the same consumer groups and maintaining the same market share.
- 2. Growth strategy:** Growth means expansion of the operations of the company and addition of new areas of operations. Growth strategy can be very risky and involves forecasting and analysis of many factors that affect expansion, like resource availability and market availability. However, growth is necessary due to volatility of businesses and industries. Diversification of services or products is another example of growth and strategy.

A classic example of growth of existing services is that of McDonald's Hamburger chain. Starting from scratch in the 1950s, it developed into a franchise chain of 6000 outlets in 1979 with a sale of over US\$ 5 billion per year.

3. **Retrenchment strategy:** Retrenchment primarily means reduction in product, services, and personnel. This strategy is useful in the face of tough competition, scarcity of resources and re-organization of the company to reduce waste. Most airlines have streamlined their operations.
4. **Combination strategy:** Combination strategy means using a combination of other strategies' and is primarily used by large complex organizations who may want to cut back in some areas and expand in others. Also, in time of financial difficulties, a company may employ retrenchment strategy and resort to growth strategy, if the economic situation improves.

### Characteristics of a sound policy

The following are the characteristics of a sound policy:

1. A policy should be clearly prescribed and understandable by all. It should be subject to one interpretation and the intent and the content of the policy must be clearly expressed and preferably in writing.
2. It should be stable but sufficiently flexible. Stability implies that no changes in the policy are to be made except in response to fundamental and basic identifiable changes in the conditions. Flexibility provides enough room for the manager to use his own discretion within the broad boundaries of the policy.
3. It should be comprehensive in scope. It should be capable of being applied to different situations in a given area, so that most cases can be handled at lower levels of the management, and only some exceptional cases, which are unique and are not covered by the policy are referred to the higher management. For example, personnel policies should cover guidance for answering all questions that may arise in that area. These may be in reference to hiring, firing, promotions, transfers, training, remuneration, and so on.
4. A sound policy should be related to the objectives of the company and be in harmony with the economic, political and social environment of the company. Policies are instruments for moving towards the objectives. Sound policies, understood by all, will leave little room for discontent and grievance, hence assisting in smooth operations necessary for achieving objectives. Additionally, if the law demands equal opportunities for all and the society expects it, then the policy should be consistent with these requirements.
5. A sound policy should help coordinate multiple activities. Even though different work groups and divisions will have different functional policies, they must be bonded together with the common theme of the organizational goals. These sub-policies should not contradict each other.

### NOTES

## NOTES

6. A sound policy, not only prescribes general guidelines for conduct, but also establishes criteria for current and future action for a given set of circumstances and given decision variables, and methods and procedures for accomplishment.

7. It must be based on known principles, facts and truth. For example, a policy, 'The customer is always right,' may be a good policy, but it is not based on truth. Similarly, a policy based on assumption that older people are less efficient, may not be based on facts and, hence, will not be a sound one.

8. A sound policy should establish the desired image of the company. Policies are useful indicators of the conduct and philosophy of the company and about what the company stands for. These policies being formal statements can easily be communicated to the organizational members as well as the outside public.

While policies are pre-determined guideline that provides direction for decision-making purposes, procedures are the exact steps for an activity to be completed. Rules are specific and narrow guide to action. A rule needs to be followed strictly and is generally reinforced by penalties.

All policies, procedures, rules and regulations, methods and strategies are designed to implement and support the planning process so that the goals and objectives of the organization are achieved in an orderly way. Planning is a very important and critical ingredient of organizational operations and decision-making.

### 2.2.2 Components of Planning As Objectives

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 the goals should be consistent with the long-range mission of the organization and should be established with the following considerations:

- (i) **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.
- (ii) **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.

- (iii) **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, and so on.
- (iv) **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.

## NOTES

### Check Your Progress

1. Define planning according to Peter Drucker.
2. Mention the six Ps of planning.
3. What is a significant aspect of any formal planning process?

## 2.3 PLANNING PROCESS, METHODS AND PREMISES

The planning process includes five major stages to perform planning related activities.

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

- Step 1.** Establish and clearly define the central and overall objectives of the organization. A well-defined objectives 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 objectives of a hospital is to provide quality health care.
- Step 2.** The second step is to make an assessment of the available resources. This will give an idea of resources that need to be procured.
- 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.

## NOTES

**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 programmes 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 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.

### 2.3.1 Limitations 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 objective and action statements has numerous advantages for the organization. First, it creates a unity of purpose for the organization, since the objectives are formally expressed and the methods and procedures to obtain these objectives are clearly defined. Second, proper planning helps in the process of motivation. If plans are properly communicated to all members of the organization, then everyone can feel involved in carrying them out. When people get involved, their sense of belonging increases and thus they become highly motivated. Third, it reduces the elements of risk and uncertainty, since accurate forecast of future is an integral part of effective planning. Also, since planning is done in advance of actions, it prevents hasty judgements and results in disciplined thinking. Fourth, proper planning results in effective utilization of organizational resources. This will reduce unproductive work, idle time for workers, downtime for machines, thus resulting in minimum cost of operations. Fifth, it improves the competitive strength of the company. Since the operations are planned in advance, the company is able to take its time in shopping around for best and competitive rates for raw materials, equipment and parts and for human resources. Also proper planning gives the company an advantageous edge in case it decides to make changes in its line of products or expansion in plant capacity or changes in methodology. Finally, formal planning forces managers to understand and evaluate all variables that influence events. Hence, it would make it unlikely that the managers may ignore or overlook a critical variable due to time pressures or other factors which could adversely affect the organizational operations or the outcomes.

If the planning function is not well executed within the organization, there can be several disadvantages. First, planning is expensive and time consuming. A

good deal of time, energy and capital is involved in setting up the planning machinery for the purpose of gathering and analyzing data and testing of various alternatives in order to select the one which is most appropriate. Accordingly, the cost of planning and the benefit 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. Second, 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. This does not leave any provision for manager's innovation and creativity. This problem can be overcome, however, by making the plans more flexible in order to accommodate changes generated by new ideas. Finally, planning can sometimes be very frustrating because it requires an extremely 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 is difficult to achieve.

## NOTES

### Check Your Progress

4. Mention any two disadvantages of planning.
5. What is the first step in the planning process?

## 2.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. According to Peter Drucker, '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 expectation through organized, systematic feedback.'
2. The six Ps of planning are purpose, philosophy, premise, policies, plans, and priorities.
3. 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.
4. The two disadvantages of planning are as follows:
  - Planning is expensive and time consuming.
  - Planning itself can be a hindrance to innovation.
5. The first step in the planning process is to establish and clearly define the central and overall objectives of the organization.

## NOTES

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### 2.5 SUMMARY

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- In organizations, planning can become a management process, concerned with defining goals for a future direction and determining on the missions and resources to achieve those targets.
- The six Ps of planning are purpose, philosophy, premise, policies, plans, and priorities.
- An effective planning system requires a clear understanding of the purpose of an organization's existence.
- 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.
- A strategy is an action plan that sets the direction that a company will be taking.
- Stability strategy implies, 'to leave the well enough alone'. If the environment is stable and the organization is doing well, then it is better to make no changes.
- If the planning function is not well executed within the organization, there can be several disadvantages.
- First, planning is expensive and time consuming. A good deal of time, energy and capital is involved in setting up the planning machinery for the purpose of gathering and analyzing data and testing of various alternatives in order to select the one which is most appropriate.
- Accordingly, the cost of planning and the benefit derived from it must be adequately balanced.
- Planning can sometimes be very frustrating because it requires an extremely detailed, careful and analytical thought process.

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### 2.6 KEY WORDS

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- **Decision making:** Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions.
- **Strategic planning:** Strategic planning is the process of planning as to how to achieve the organizational goals with the available resources and is undertaken by the central management of the organization.
- **Strategy:** A strategy is a decision-making choice and would involve consideration for external environment affecting the company as well as the internal environment of strengths and weaknesses of the company.

## 2.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

### Short-Answer Questions

1. Why planning is considered as a vital managerial function?
2. What are the four types of strategies?
3. Mention the main characteristics of sound policy.
4. What are the various components of planning as objectives?

### Long-Answer Question

1. Explain the process of strategic planning.
2. Discuss the importance of strategic planning.
3. Describe the hierarchical structure of planning.
4. If the planning function is not well executed within the organization, there can be several disadvantages. Identify these disadvantages and discuss them individually.

## 2.8 FURTHER READINGS

- Drucker, Peter. 2012. *Management*. United Kingdom: Routledge.
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### NOTES

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## UNIT 3    DECISION MAKING

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### NOTES

#### Structure

- 3.0 Introduction
- 3.1 Objectives
- 3.2 Policies, Strategies, Procedures, Methods, Rules, Projects and Budgets
- 3.3 Decision making: Meaning and Importance
  - 3.3.1 Types of Decisions
  - 3.3.2 Process of Decision Making
  - 3.3.3 Elements and Principles 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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According to Peter C. Fishburn, ‘solving the decision model consists of finding a strategy for action, the expected relative value of which is at least as great as the expected relative value of any other strategy in a specified set. The prescriptive criterion of a strategy will be maximization of the decision maker’s total expected relative value.’

Decision-making 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 constitutes a decision. This decision may be a simple one, such as choosing clothes to wear, selecting food from a menu or deciding general activities for the day or it may be a major decision like 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 is made to solve such a problem. While most decisions indeed involve a problem, some decisions are comparatively 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 swimming are routine decisions and simple choices among available alternatives requiring common sense and simple qualitative judgement. Problem solving, on the other hand, is a much more vigorous process that requires rational inquiry based on unemotional reasoning. It requires identifying the problem, generating feasible solutions for it, choosing the best solution from 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 that is actually obtained. In this unit, you will learn about the types of organization plans. This unit will also explain the process of decision-making.

## NOTES

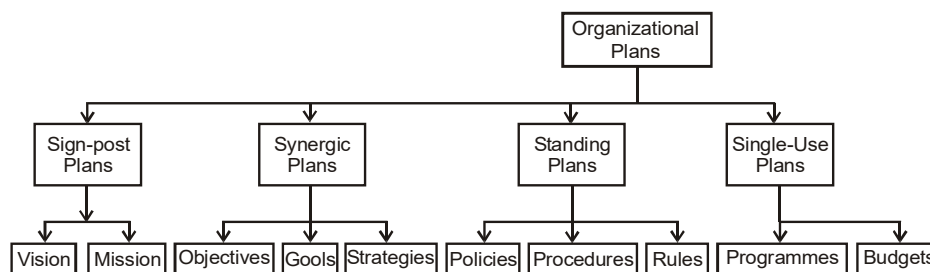
### 3.1 OBJECTIVES

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

- Define the types of organization plans
- Explain the process of decision-making
- Identify the major elements and principles of decision making
- Discuss the concept of synergic plans

### 3.2 POLICIES, STRATEGIES, PROCEDURES, METHODS, RULES, PROJECTS AND BUDGETS

Organization plans are usually divided into four types, namely *sign-post plans*, *synergic plans*, *standing plans* and *single-use plans*. Standing plans are those that remain roughly the same for long periods of time and are used in organizational situations that occur repeatedly. The most common kinds of standing plans are policies, procedures and rules. Single-use plans focus on relatively unique situations within the organization and may be required to be used only once. These plans can be subdivided into programmes and budgets.



**Fig. 3.1** Types of Organizational Plans

### Strategic Planning

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

## NOTES

### Vision statements, mission statements and value:

**Vision:** It is a long-term view. Vision can be defined the way an organization will look in future.

**Mission:** It defines the fundamental purpose of the organization with information regarding why it exists and what it needs to achieve according to its vision.

**Values:** Values are the beliefs shared by the organization's managers, stakeholders. Value defines the organizations culture and priorities providing a framework for decision-making.

**Objectives:** They are the key elements which clearly define the state of the business in terms of the needs/wants it needs to achieve in future. Besides indicating the need to achieve regular profits, objectives are required to understand and relate to the expectations of all major stakeholders, including the employees. The objectives of an organization should be reflective of the underlying reasons for running the business in the first place. Thus, objectives should be able to cover the growth, profitability, technology, offerings and market of an organization or business.

**Goals:** This can be defined as a purpose towards which an endeavour is directed. In any given organization these goals need to be achieved by implementing strategies. Goals should be quantifiable, consistent and realistic—more than that they should be achievable. They can relate to factors like market (sizes and shares), products, finances, profitability, utilization, efficiency.

**Strategy:** This can be defined as 'the art of the general' and is basically a combination of the ends for which the firm is striving, which would be its goals and the means by which it is seeking to get there, which would be the organization's policies. The most important part of implementing a strategy is to see that the organization is moving in the right direction, which is the vision of the organization.

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

### Features of an effective vision statement:

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

### Strategic planning process

There are many different approaches to strategic planning; however the following three-step approach can be used.



The first approach is based on situation, target and path. In this approach, the current situation of the organization is evaluated and then a target is set, which involves goal setting and finally a path to achieve these possible goals is set.

### **Draw-See-Think approach:**

**Draw:** Define the desired end state which is to be achieved

**See:** Evaluate the current situation and analyze how far we are from our goal.

**Think:** What specific plan is required in order to reach the desired goal.

This also involves plan which defines what resources are needed and how the plan will be executed.

There is an alternate to the Draw-See-Think approach which is the See-Think-Draw approach where:

**See:** We see today's situation

**Think:** Define goals and objectives

**Draw:** Map a route to achieve these goals and objectives.

### **Goals, objectives and targets**

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

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

**TRO:** Top Rank Objective

Second Rank Objective

Third Rank Objective

The objective in the Third Rank answers the 'How' question, whereas the objectives of a higher rank will answer the 'Why' question and the top rank objective is an exception and there is no answer to the Why question.

There are instances where people have more than one goal. In this case, it needs to identify as to how well goals combine with each other and whether or not they are compatible. Goal hierarchy refers to the nesting of one or more goals with other goals.

## **NOTES**

**NOTES**

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

**Sign-Post Plans**

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

Every plan is based on assumptions. It may be a huge plan of a business organization to something as simple and mundane like planning a birthday party. Irrespective of the size of the plan, the individual involved will make assumptions about the future prospects, i.e., the outcome. In order to understand the concept of signposts, it would be best to understand the Assumption Based Planning model.

Once a plan has been formulated, a specialized team of planning identifies the assumptions that would most likely overturn or derail the planning process. These assumptions are also analysed from the organization's point of view, whether or not they are detrimental to the growth of the organization. James E. Dewar in his book *Assumption-based Planning: A Tool for Reducing Avoidable Surprises* suggests the following ways to find assumptions:

- (i) The use of conventional brainstorming techniques
- (ii) Assessing current corporate goals and values
- (iii) Analysing corporate traditions such as the functioning of different processes
- (iv) A thorough examining of actions in the plan to identify those actions which are not associated with assumptions. These un-associated actions are referred to as 'orphan' as they are often based on undocumented assumptions

**Mission and Vision of Signpost Plans**

Mission statement speaks about an organization's achievements and what it aims to accomplish, whereas vision statements records the milestones an organization would like to achieve in the near future. In layman's terms signposts can be defined as a future indication that acts as a guidance tool or clue for a particular task. Signposts act as warnings and indicate that the planning needs to be changed according to the desired final outcome. For instance, if one wants to organize an outing for its employees, it needs to check the availability and whether or not the

organization can afford to suspend its operations for a day. All these assumptions are signposts. Therefore, in order to function effectively, every organization must plan and make decisions accordingly keeping in mind the various signposts that might occur and hamper the fulfilment of their objectives and goals. Another example which explains the importance of signposts in the vision of the organization could be the growth factor. For instance, if an organization needs ₹50 crore to finance a new project, they need to ensure that their profits should exceed in such a manner that they are able to organize the sum required for their new project. In order to ensure profits, the organization needs to make sure that no technical snag or machinery issues should occur. They also need to increase production in order to meet the new target. If a machine breaks down, it should not hamper production, nor should the output suffer during the time the machine breaks down. Measures have to be taken to ensure arrangements for all future prospects. Therefore, meticulous planning along with effective decision-making can only take place if signposts are addressed adequately and correctly.

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

### **Synergic Plans**

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

- (i) In the first phase, market analysis is done where customers’ needs, emotional influencers are taken into consideration. Customer’s knowledge regarding the product is also verified and an effort is made to identify the source of

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information such as media, advertisements, etc. In the first phase, competitors' strengths and weaknesses are also analysed in terms of how well they meet the customers' need. On the basis of SWOT analysis (strategic planning method used to evaluate the Strengths, Weaknesses or Limitations, Opportunities and Threats involved in a project) of an organization strategies are developed and comparisons are made with competitors in order to find the core competencies. This phase also deals with defining product/service and a position statement development.

- (ii) The second phase is planning where all activities of goal setting, developing tangibles and measurable objectives takes place which are the necessary steps to achieve a goal. This phase basically defines what connotation success has for the organization with respect to each and every activity.
- (iii) In the final stage or the execution stage, first and foremost task is to conduct a follow-through, which is inclusive of priority setting, focus and the discipline to follow the plan. Then, the project is reviewed on the basis of their progress and the activities and how they affect the company goals. Periodic reviews of the overall strategy is also done to ensure whether any changes have taken place and to make corrective changes if required.

**Importance of synergistic planning and decision-making:** Synergistic decision-making is a high-impact leadership-management exercise which is based on research and field work. This is also a team-building exercise and it strengthens cooperation and communication in the goal-setting process. It not only demonstrates the impact of constructive group styles on performance but promotes team members acceptance and readiness towards organizational change. By using the team members observation of their own performance towards organizational change, it becomes easy to understand their thinking and behavioural difference. This helps the team members to make the connection between constructive interpersonal styles and positive outcomes, including goal setting. A leader can easily find out the different assessing styles of his team members and whether they support or inhibit synergistic decision-making. Synergistic planning and decision-making unify the entire team towards finding solutions for mutual challenges, such as goal-setting. Synergistic planning and decision-making is a dynamic concept and can be very helpful in training and development programmes and establishes healthy norms within a work group. It can also be used with new or established teams to introduce members to the value of synergy or to gauge their synergistic problem-solving skills. Synergistic planning also creates a situation where all members participate on an equal footing regardless of rank or position. This helps team members to focus on group processes and analyse their contributions to the quality of the team's performance. Assessment of group styles is significant in solving real-life problems. This also helps in improving team dynamics to enhance the decision-making process. Every employee feels satisfied to be a part of the organization and their team in particular. Synergistic planning and decision-making integrate team development with individuals, leadership and organizational development.

## Objectives, Goals and Strategies

Decision Making

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

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

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

- (i) **Setting goals:** While setting goals, a leader should be clear with the organization and its objectives and the goals should be realistic and reachable. If the leader sets the bar too high, the team members might be discouraged

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and think that they may never be able to achieve the goals. They may reach a point that they might think it is a waste of time to even try achieving those goals. A leader should formulate goals in such a manner that the team puts extra effort to achieve them. Goals need to be attainable. Constant encouragement is required on the leader's part as the team may think that they might not be able to achieve the set goals

- (ii) While setting goals it is important to understand that goals are not only set for increasing business or production, but goals are set for the betterment of the entire organization. If the goals only benefit the organization and not the employees, it becomes difficult for a leader to convince his team members to go the 'extra mile' for the organization.
- (iii) A good leader ensures that his team is involved in setting goals as they can contribute immensely based on their experience. If a leader always sets goals and does not involve his team while doing so, he might lose out on valuable information which the team could provide him as they are the ones who are actually doing the work. Involving team members in goal setting encourages them and inspires them to take ownership to fulfill the goal.
- (iv) Thorough planning is to be done in order to make sure that the goal is achieved. Planning should also involve other aspects of the organization and should not be merely based on numbers. Concrete plans need to be developed as how production will increase and what all is to be done in order to achieve smooth functioning of the organization to increase production.

The aforementioned points discuss the components of team goals. Now we shall concentrate on how these components are implemented in order for the organization to maximize their goals.

Once the leader sets a vision, he should inspire the team to actively participate in goal-setting. Then the leader should discuss with his team how to break down these goals into measurable objectives. An effective leader should also maintain a daily report which discusses the progress of the team as they work towards the achievement of goals. Therefore, each task is broken into a number of tasks so that a leader has a list of action items to do in order to accomplish organizational objectives.

It is important for a leader to set a timeline to every task as a goal without an end date is worthless. The timeline also has a correlation with the tasks. This is also an effective way to determine whether a team is progressing according to schedule. If a team is not moving according to a timeline, then changes need to be made in order to attain the goal.

Daily or weekly follow ups will keep the goal fresh on the team's mind and will also constantly encourage them to work towards the goal.

Therefore, goals must be set with the involvement of the team who will be responsible to work towards the goal. However, being the leader, it is his job to

determine the vision. A leader needs to make realistic and obtainable goals while also developing the team. Finally, an effective plan needs to be made to achieve the goals otherwise there will be no change in the current levels and this will ultimately lead to the failure of the goal.

**Strategies:** An effective teamwork strategy will bring people together in order to work towards a common goal. If a leader encourages his or her team to work in harmony, team members automatically learn to work effectively. Encouragement by seniors inspires team members to share ideas with their colleagues and work towards their common goal. It has been aptly said that ‘two heads are better than on.’ Therefore, bringing together a group of individuals who each have ideas will lead the team to obtain best results. Teamwork is not only effective in organizations and offices, but is also effective in schools, sports and other activities within the community. Therefore, a team leader should use specific strategies to maximize teamwork efforts and encourage individuals to work together as a group

- (i) **Roles:** Every individual in a team acquires a specific role. Whether this is done consciously or not is a total different subject. In every team, one will find that there are a few people who like to lead whereas others remain passive participants without taking any responsibility. For a leader it is important to create clear goals and define roles for each and every member of his team. After a group assembles and every member’s role is defined to achieve the set goals, the leader should ask his team members as to how they would like to contribute to the group. During this time a leader should list the responsibilities and tasks that are needed to accomplish the goals. Similarly, create a category list that matches tasks with roles. For instance, the group leader is in charge of monitoring the progress and maintaining data. Hence, clearly defined goals which have been matched with specific task will help each member determine which role is best suited for their personality, abilities and efforts.
- (ii) **Communication:** For any business to succeed, communication is key to an organization. It is considered to be the backbone for any effective teamwork strategy. In order to reach a successful outcome, it is imperative that team members share their thoughts and ideas. To communicate effectively there are numerous approaches. For instance, if some team members are working from home or are located at another city, then weekly or bi-weekly meetings on Skype can be arranged. A team leader should make it a point to e-mail a progress checklist to each team member so that everyone can review what the group has accomplished and what issues need to be handled. An efficient leader should also have one-to-one meetings with team members along with team hurdles for the entire team. This way a leader can keep a check on the entire team and have a better understanding of every team member. To make sure no individual gets off track, a leader should have each team member report his daily progress through e-mail or on paper. In case regular meetings cannot be held, then written

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communication should be brought into practice. This also helps in maintaining team cohesiveness. A leader can send weekly memos, blogs and updates in order to track group progress. Written communication is also a feasible option to share ideas.

- (iii) **Reward and Recognition:** In order to develop a successful group, it is important that every leader appreciates his team through rewards and recognitions for their exceptional work. For example, in a school system, a high grade is a reward for extra effort on a team project. Similarly, some office sales teams strive for being mentioned at the next employee meeting, in addition to a bonus. Exceptional team work can be rewarded by pizza parties or an outing. Constantly appreciate and encourage team by praising the team. By following the above mentioned ideas, a leader can provide enormous motivation for members. It has been observed that by hearing how your work positively affected the team can boost the morale and enthusiasm of the team members.

**Standing Plans**

Standing plans constitute the following:

- **Policies:** Policies, being formal statements, serve as ready guides for answering numerous questions and making many day-to-day routine decisions, especially about recurring problems, thus freeing management's time for more important and unique decisions. This helps improve the efficiency of operations. If the policies are clearly understood and adhered to by all, then there will be fewer problems and fewer complaints to start with. There may be separate policies for separate functions but they must be all co-ordinated, thus serving the consistency of purpose.
- **Procedures:** While policies cover a broad area of action, procedures prescribe the exact manner in which an activity is to be completed. It is a series of steps established to accomplish a specific project. These generally indicate how a policy is to be implemented and carried out. These are more precise guidelines permitting little or no individual discretion. Procedures can be defined as a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished.
- **Rules:** While procedures specify a chronological sequence of steps to be performed, a rule is very specific and a narrow guide to action. These are plans that describe exactly how one particular situation is to be handled. For example, a company may prescribe a number of safety rules, such as 'No smoking on company premises'. 'No eating in the classroom' is a rule in all schools and colleges. A rule is meant to be strictly followed and is generally enforced by invoking penalties.
- **Method:** A method refers to a prescribed process in which a particular operation of a task is to be carried out. It specifies the most efficient way of



performing different steps in a task. It defines the technology of individual operations in a work situation. A method functions as a complete guide for individuals in their performance of tasks. Thus, it is important to determine the standardized, simplified and efficient methods of performing physical task by operatives. That is why even in modern computer systems standard methods are generated to instruct the computer what operations it has to perform in processing data.

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

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### Single-Use Plans

Single-use constitute the following:

- **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. Once the goals of the programme are achieved, these are 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 at a time. When a specific budget period ends, the value of that budget as a planning device is finished, even though it may form the basis for the budget for the following period. In that respect, it is a single-use plan.
- **Projects:** A project is a single-use plan which is part of a general programme. It is defined as any scheme or a part of a scheme for investing resources, which may be analysed and evaluated as an independent unit. A project has a distinct mission and a clear termination point. It is a one-time crash programme. The essential features of a project may be summarized as follows:
  - o It is a non-recurring plan.
  - o The activity is definable in terms of specific objective.
  - o It involves time-bound activities.

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

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### Check Your Progress

1. Mention the four types of organization plans.
2. Define strategic planning.
3. What is a signpost?

## 3.3 DECISION MAKING: MEANING AND IMPORTANCE

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

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

### 3.3.1 Types of Decisions

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

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

We shall discuss each of these conditions separately

#### Decision under Certainty

This is the simplest form of decision making. The condition of certainty exists when there is no doubt about the factual basis of a particular decision and its

outcome can be predicted accurately. There is just one state of nature for each alternative course of action and there is complete and accurate knowledge about the outcome of each alternative. We would simply select the alternative with the best outcome.

If the number of alternatives is relatively small then the outcomes can be compared with each other, either all at once and then picking the best or two at a time, comparing the two and discarding the inferior alternative and the better one of the two is compared with the next one and the inferior alternative discarded and so until all outcomes have been compared and the best one identified.

However, if the number of alternatives is large then some mathematical tools such as linear programming and deterministic 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 which deal with the problems of using limited resources of a business to obtain a particular objective within given condition or constraints; transportation problems where certain transporting vehicles are dispatched to certain destinations in order to minimize the total costs of entire transportation operation; assignment problems where certain jobs are assigned to certain machines in order to minimize the total costs, are all examples of decision making under conditions of certainty.

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

### **Decisions under Uncertainty**

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

For example, if you deposit your savings in 'fixed deposit' bearing 10 per cent interest, you know for certain that the return on your investment in time deposit is 10 per cent, and FDR can be converted into cash any day at a lower rate of interest, of course. Or, if you buy government bonds, treasury bills, etc. bearing an

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interest of 11 per cent, you know for sure that the return on your investment is 11 per cent per annum, your principal remaining safe. In either case you are sure that there is little or no possibility of the bank or the government defaulting on interest payment or on refunding the money. This is called the state of certainty. However, there is a vast area of investment avenues in which the outcome of investment decisions is not precisely known. The investors do not know precisely or cannot predict accurately the possible return on their investment. Some examples will make the point clear. Suppose a firm invests in R&D to innovate a new product, spends money on its production and sale. Success of the product in a competitive market and the return on investment in R&D and in production and sale of the product can hardly be predicted accurately. There is, therefore, an element of uncertainty. Consider another example. Suppose a company doubles its expenditure on advertisement of its product with a view to increasing its sales. Whether sales will definitely increase proportionately can hardly be forecast with a high degree of certainty, for it depends on a number of unpredictable conditions. Consider yet another example. Maruti Udyog Limited (MUL) decided in July 2000 to invest money in financing the sale of its own cars with a view to preventing the downslide in its sales which it had experienced over the past two years. However, the managers of MUL could hardly claim knowledge of or predict the outcome of this decision accurately. So this decision involves risk and uncertainty. In real life situations, in fact, a large number of business decisions are taken under the conditions of risk and uncertainty, i.e., the lack of precise knowledge about the outcome of the business decisions.

Let us now look into the precise meaning of the terms risk and uncertainty in business decisions. Risk in common parlance, risk means a low probability of an expected outcome. From business decision-making point of view, risk refers to a situation in which a business decision is expected to yield more than one outcome and the probability of each outcome is known to the decision makers or can be reliably estimated. For example, if a company doubles its advertisement expenditure, there are three probable outcomes: (i) its sales may more than double, (ii) it may just double, or (iii) may less than double. The company has the knowledge of these probabilities or has estimated the probabilities of the three outcomes on the basis of its past experience as (i) more than double – 10 per cent (or 0.1), (ii) almost double – 40 per cent (or 0.4), and (iii) less than double – 50 per cent (or 0.5). It means that there is 90 per cent risk in expecting more than doubling the sales, and there is 60 per cent risk in doubling the sale, the risk is 60 per cent, and so on.

There are two approaches to estimate probabilities of outcomes of a business decision, viz., (i) a priori approach, i.e., the approach based on deductive logic or intuition, and (ii) posteriori approach, i.e., estimating the probability statistically in the basis of the past data. In case of a priori probability, we know that when a coin is tossed, the probabilities of 'head' and 'tail' are 50:50, and when a dice is thrown, each side has 1/6 chance to be on the top. The posteriori assumes that the

probability of an event in the past will hold in future also. The probability of outcomes of a decision can be estimated statistically by way of 'standard deviation' and 'coefficient of variation'.

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

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

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

- (a) Complete ignorance
- (b) Partial ignorance

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

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

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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.

### 3.3.2 Process of Decision Making

All decisions involve a series of sequential steps that lead to a particular result. These steps are generally followed to make systematic, objective, analytical and unemotional decisions and some management scholars have called this process a 'rational decision-making process'.

These steps are explained as follows:

#### Perception and diagnosis of the problem

Problems are defined in terms of discrepancy or deviation between the desired and actual state of affairs. The greater this deviation the more serious the problem.

A problem once isolated, must be defined and formulated. A written problem statement should be developed, describing as specifically as possible the nature and the extent of the symptoms of the problem and when and where they occurred and what the underlying causes are thought to be.

#### Generation of alternate solutions

The next step in the decision-making process is to generate possible solutions and their consequences to the organization. All possible solutions should be considered because the most obvious one may not be the optimal solution. However, creativity should be encouraged so that the focus can be shifted to unique solutions.

In searching for alternatives, some of the resources that can be drawn upon are: the past experience of the decision maker to look for similarities with the problems and solutions in the past, drawing on the experience of other experts both within and outside the organization, and the responses of the people who would be affected by the decision.

#### Evaluation of alternatives and selecting a course of action

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

effectiveness which means that for a given cost, the alternative with a greater degree of achievement of objective will be selected. Similarly, for a set level of achievement, the alternative with a lower cost will be accepted.

### **Implementation of the decision**

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

It is essential to communicate the details of the decision and procedures for implementation to all the employees clearly, in detail and in a manner that would invite commitment and dedication.

### **Monitoring feedback**

Feedback provides the means of determining the effectiveness of the implemented decision. If possible, a mechanism should be built into the process which would give periodic reports on the success of the implementation. In addition, the mechanism should also serve as an instrument of 'preventive maintenance' so that the problems can be prevented before they occur. Monitoring feedback is necessary irrespective of the fact whether it is negative or positive.

### **3.3.3 Elements and Principles Of Decision Making**

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

#### **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 risk takers and highly authoritative individuals do make decisions on the basis of comparatively less information than 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 of all, perception is highly selective,

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

**Cognitive constraints**

The human brain, which is the source of all thinking, creativity and thus decision-making, is limited in capacity in a number of ways. For example, except in unique circumstances, our memory is short-term with the capacity of only a few ideas, words and symbols. Secondly, we cannot perform more than limited number of calculations in our heads which are not enough to compare all the possible alternatives in order to make an intelligent 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 very 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 such 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 affects the success of the decision. The risk-taking attitude is influenced by the following variables.

- (i) **Intelligence of the decision maker:** Higher intelligence generally results in highly conservative attitudes and highly conservative decision makers are low-risk takers. There are others who are more willing to take calculated risks if the potential rewards are large and there is some chance of success.
- (ii) **Expectations 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.
- (iii) **Time constraints:** As the complexity of the personal habits of the decision maker and the complexity of the decision variables increase, so does the time required to make a rational decision. 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 constraints rely on a 'heuristic approach', which relies on satisfactory decisions 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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### Check Your Progress

4. What are the three types of circumstances in which the decisions are to be made?
5. Define the term uncertainty.

## 3.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The four types of organization plans are sign-post plans, synergic plans, standing plans and single-use plans.
2. Strategic planning can be defined as the organization's effort to define a strategy and make decisions regarding the allocation of resources to pursue the strategy.
3. A signpost can be defined as an event or threshold that indicates an important change in the validity or vulnerability of an assumption.
4. There are three types of circumstances in which the decisions are to be made. These are as follows:
  - Decisions under certainty
  - Decisions under risk
  - Decisions under uncertainty
5. Uncertainty refers to a situation in which there is more than one outcome of a business decision and the probability of no outcome is known or can be meaningfully estimated.

## 3.5 SUMMARY

- Organization plans are usually divided into four types, namely sign-post plans, synergic plans, standing plans and single-use plans.
- Strategic planning can be defined as the organization's effort to define a strategy and make decisions regarding the allocation of resources to pursue the strategy.
- A mission statement identifies the fundamental purpose of an organization.

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- Strategic planning is an integral part of the organizations. Good strategic planning should have a goals and objectives and a roadmap to achieve them.
- A signpost can be defined as an event or threshold that indicates an important change in the validity or vulnerability of an assumption.
- Concepts like aim points, strategic control systems, and indications and warning are a part of planning that are quite similar to signposts and overlap with signposts.
- Mission statement speaks about an organization's achievements and what it aims to accomplish, whereas vision statements records the milestones an organization would like to achieve in the near future.
- The term 'team' can be defined as a group of two or more individuals.
- An effective teamwork strategy will bring people together in order to work towards a common goal.
- Policies are useful indicators of the conduct and the philosophy of the company and about what the company stands for.
- Decision-making is a complex mental exercise. Some of the decisions we make are highly significant with important consequences.
- The concept of risk and uncertainty can be better explained and understood in contrast to the concept of certainty.
- Problems are defined in terms of discrepancy or deviation between the desired and actual state of affairs.
- Implementation means putting the selected alternative into action and seeing it through to its completion.

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## 3.6 KEY WORDS

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- **Standing plans:** Standing plans are those that remain roughly the same for long periods of time and are used in organizational situations that occur repeatedly.
- **Vision:** It is a long-term view. Vision can be defined the way an organization will look in future.
- **Mission:** It defines the fundamental purpose of the organization with information regarding why it exists and what it needs to achieve according to its vision.
- **Values:** Values are the beliefs shared by the organization's managers, stakeholders. Value defines the organizations culture and priorities providing a framework for decision-making.
- **Method:** A method refers to a prescribed process in which a particular operation of a task is to be carried out.

### 3.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

#### Short-Answer Questions

1. Differentiate between mission statement and vision statement.
2. What are the various features of an effective vision statement?
3. Write a short note on the Draw-See-Think approach.
4. What is the importance of synergistic planning?
5. Identify the major elements and principles of decision making.

#### Long-Answer Questions

1. Discuss the concept of synergic plans.
2. Describe the three phases of synergistic planning.
3. Write a detailed note on the importance of single-use plan.
4. Explain the process of decision-making.
5. Discuss the 'rational decision-making process.'

### 3.8 FURTHER READINGS

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## UNIT 4 ORGANIZING

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#### Structure

- 4.0 Introduction
- 4.1 Objectives
- 4.2 Nature, Purpose and Structure of Organization
  - 4.2.1 Formal and Informal Organizations
  - 4.2.2 Organizational Structure
  - 4.2.3 Types of Organizational Structures
- 4.3 Principles and Theories of Organization
  - 4.3.1 Theories of Organization
- 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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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 this unit, you will describe the importance of organizing; explain its process and features. This unit will also describe the various steps in organizational structuring and discuss the three types of approaches to organization

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### 4.1 OBJECTIVES

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After going through this unit, you will be able to

- Describe the importance of organizing
- Define the process of organization
- Describe the various steps in organizational structuring
- Explain the different types of organizational structures
- Discuss the three types of approaches to organization

## 4.2 NATURE, PURPOSE AND STRUCTURE OF ORGANIZATION

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.
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.

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**NOTES****Importance 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 organised 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.

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 organised or how large airports are built. Without proper organization of people and resources the project could not be successful.

**Guidelines for Effective Organization**

Following are the guidelines for effective organization:

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

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.

*Organizing*

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. This is especially necessary in large complex organizations. This principle is known as decentralization of power as against centralised 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 specialisation. 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 specialisation must be interrelated 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 interdependent these positions are. The more interdependent these positions are, the more difficult is the coordination. In such interlocking positions, it is advisable to have no more than five or six subordinates working under any one executive.

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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 times demand. Furthermore, simplicity would make the communication much easier, fast and accurate, which is necessary for successful organizations. While these principles, in general, apply to classical organizations as proposed by Frederick Taylor and Henry Fayol, and have been adopted to facilitate administration, some more recent principles have evolved which have become an integral part of most modern organizations. These new principles of participative decision making, challenging work assignments, management by objectives, and decentralization of authority have been integrated with the traditional ones. The idea is to stimulate creativity, encourage growth and optimise the utility of all resources in reaching the goals of the organization.

### The Organization Process

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. 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 which are unique to the type of business that an organization is in. For example, in the case of the 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 critical to organizing because the right person must be matched with the right job and the person must be provided with the resources to accomplish the tasks assigned. 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 results:** In this final step, feedback about the outcomes would determine as to how well the implemented organizational strategy is working. This feedback would also determine if any changes are necessary or desirable in the organizational set-up. For example, in the case of the restaurant, complaints and suggestions from customers would assist the manager in making any necessary changes in the preparation of food, internal decor of the restaurant or efficiency in service.

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### 4.2.1 Formal and Informal Organizations

A **formal organization** typically consists of a classical mechanistic hierarchical structure. In such a type of structure, the position, responsibility, authority, accountability and the lines of command are clearly defined and established. It is a system of well-defined jobs with a prescribed pattern of communication, coordination and delegation of authority. 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 unrecognised, 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.

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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.

#### 4.2.2 Organizational Structure

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

#### Steps in Organizational Structuring

Once the mission of the organization is specified and goals and objectives established and identified, the organization needs to be structured in such a manner that human and physical resources are brought to action to achieve these goals and objectives. The following steps are taken to build the structure of the organization:

- 1. Determination, identification and enumeration of activities:** Once the objectives have been established, the activities required to achieve these objectives are identified. These activities are broken down into sub-activities as far down the hierarchy as possible so that each individual knows as to what part of the activity he is responsible for. Care must be taken so that all necessary activities are taken into account and streamlined. This process applies to both managerial as well as operational activities.
- 2. Grouping and assigning of activities:** All similar activities are grouped together and assigned on the basis of divisions or departments. These sets of activities may further be sub-divided into sections or units. These groupings may be done on the basis of primary functions such as production, finance, sales, personnel and so on, or these may be done on a derivative basis such as types of customers, geographical area and so on. These groups of activities are then assigned to personnel as heads, marketing managers,

personnel directors and so on. They in turn delegate and distribute jobs to their subordinates down the line. Care should be taken that the personnel and their jobs are well matched.

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

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### Benefits of a Good Organizational Structure

While there are many different structures that organizations can adopt, depending upon the type of organization including whether it is a service organization or a manufacturing organization, a well-structured organization has many benefits. Some of the beneficial outcomes of optimally designed organizational structures are as follows:

1. **Attainment of objectives:** A good organizational structure facilitates attainment of objectives through proper coordination of all activities. It has a built-in system of 'checks and balances' so that the progress towards the attainment of objectives is evaluated along the way, any required adjustments can be made and any new decisions required can be taken.
2. **Minimum conflicts:** In a good organizational structure, the conflicts between individuals over jurisdiction are kept to a minimum, since each person is assigned a particular job to perform and the responsibility of performing that job rests solely with him. It results intractability of outcomes and the work interdependency of that particular task is reduced to a minimum.
3. **Reduction in overlapping and duplication of work:** Duplication exists when work distribution is not clearly identified and the work is performed in a haphazard and disorganised way. Since a good organizational structure requires that the duties be clearly defined and assigned, such duplication of work is eliminated.
4. **Reduction in 'runarounds':** The runarounds occur when we do not know who is responsible for what and we are not sent to the right people in the first instance for getting some work done. However, in a well-organised company where the responsibilities are clearly established, this does not occur.
5. **Promotions of personnel:** Since the organizational chart clearly pinpoints the positions of individuals relative to one another, it is easier to know as to which level a person has reached at any given time in the organizational hierarchy. Furthermore, since each job is well described in terms of

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qualifications and duties, the promotional stages can be more clearly established.

- 6. Wage and salary administration:** A fair and equitable wage and salary schedule is based upon the premise that the jobs with similar requirements should have similar benefits. If these requirements are clearly established and the yearly increments or the cost of living increments for each type of job are properly and clearly understood, then compensation administration policies are easier to implement.
- 7. Easy communication:** It facilitates easy communication at all levels of organizational hierarchy. Since the lines of communication and flow of authority are clearly identified on the organizational chart, the intercommunication is both clearer and easier and it eliminates ambiguity.
- 8. Effective planning:** A well-structured organization provides a sound basis for effective planning. Since the goals are clearly established and resources clearly identified, both short term as well as strategic planning becomes more focused and realistic and such planning contains the provision to permit changes to be made in the right direction including expansion and contraction of facilities, operations and activities, when it becomes necessary.
- 9. Increased cooperation:** It results in increased cooperation and a sense of pride among members of the organization. An employee is given sufficient freedom within the domain of his responsibility and his authority. Since the authority and the extent of exercise of such authority is known, it develops a sense of independence among employees which in turn is highly morale boosting.
- 10. Increase in creativity:** Because of a sense of belonging and high morale that a well-structured organization develops among employees, and also because of clear-cut accountability, recognition of skill and appreciation for their contribution towards organizational growth, the employees develop their own initiative and a spirit of innovation and creativity.

### Mechanistic Versus Organic Structure

The organizational structure is designed both from a mechanistic as well as a 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 emphasised those basic aspects that characterise 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 interferes with efficient management. According to him:

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

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### Determinants of Organizational Structure

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

The four factors are explained in more detail.

1. **Environment:** Organizations are open systems, which continuously interact with the outside environment. The macro-environment of business today has considerable impact on the internal operations of the organization, especially if the organization is a large one. These external factors include the customers, socio-cultural and economic conditions as well as international environment. The organizational structure would depend upon whether such an external environment is stable or whether there are dynamic and rapid changes in it.

Lawrence and Lorsch have found that successful organizational structures vary with the type of environment. A more uncertain environment will have fewer predictable elements requiring the use of more specialized experts who are trained to deal with the problems created by an ever-changing situation. A stable environment can go for a more mechanistic structure.

2. **Technology:** Technology is a combination of tools, techniques and know-how and has a major influence on organizational structure. It would depend upon whether the technology is simple and routine requiring a few repetitive tasks, in which case a mechanistic structure would be more desirable. However, when the technology is advanced, intensive and complex, requiring high interdependence among members of the work force, then the organic structure would be operationally more effective.

Joan Woodward studied the relationship between technology and organizational structure in the early 1960s among some British manufacturing

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firms. She observed and calculated that technology is a major influence on organizational structure. She concluded that, in general, wherever the items are mass produced and where the work units depend upon each other in a sequential manner, and wherever the production system is automated with use of robotics and cybernetics, the organic organizational structure brings out the optimal results.

3. **Size:** Size is another factor that affects organizational design. The size of the organization, as measured by the number of people working in the organization, would determine as to which type of structure would be more effective. As the organization grows in size, it increases the number of functional departments, the number of managerial levels, extent of specialisation, number of employees with diversified responsibilities, resulting in increase in the degree of coordination required among members of the organization, and this further results in increase in related problems. These elements require a high degree of discipline and formally structured chain of command so that a mechanistic structure would be more desirable.
4. **Life cycle:** An organization's life cycle is related to its size. Some small businesses are formed but soon disappear. Some organizations try to expand too fast without the necessary resources and declare bankruptcy. Others downsize through layoffs or divestiture.

Generally speaking, organizations progress through a four-stage organizational life cycle. The first stage is the stage of 'birth' when a company is formed. The second stage, 'youth' is characterised by growth and the expansion of all organizational resources. The third stage 'midlife' is a period of gradual growth evolving eventually into stability. Finally, the fourth stage of 'maturity' is a period of stability after which, sometimes, a company evolves into decline.

As the organization goes through these stages, the organizational structure changes with the stage of the organization. Thus, the organization size and its life cycle and its design are clearly linked and this link is dynamic because of the organizational life cycle.

These four factors have a considerable impact on managerial philosophy and strategy that form the foundations for organizational structure. Alfred D. Chandler, who is considered to be a pioneer in analysing the strategy-structure relationships, came up with the conclusion that strategy has a definite influence on structure. The strategy may be that of stability, thus maintaining the status quo, or it may be one of growth. The stability strategy involves a predicted environment with limited dynamics while the growth strategy involves expansion, thus introducing the element of uncertainty and complexity. According to Schermerhorn:

'Stability strategies will be more successful when supported by mechanistic structures; growth strategies will be more successful when supported by organic structures.'

### 4.2.3 Types of Organizational Structures

Organizational structure, according to George and Jones, 'is the formal system of task and reporting relationships that controls, coordinates, and motivates employees so that they cooperate and work together to achieve an organization's goals.' Such a system is primarily influenced by certain contingency factors such as technology used or the organization's size, as discussed earlier. Depending upon the type of the organization and the philosophy of operations, managers can select any one of the various structured designs available. Some of these designs are explained as follows:

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#### The Line Structure

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

Because of the small size of the company the line structure is simple and the authority and responsibility are clear-cut, easily assignable and traceable. It is easy to develop a sense of belonging to the organization, communication is fast and easy, and feedback from the employees can be acted upon faster. The discipline among employees can be maintained easily and effective control can be easily exercised. If the president of the company and other superiors are benevolent in nature, then the employees tend to consider the organization as a family and tend to be closer to each other and respect each other, which is highly beneficial to the organization.

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

#### Line and Staff Structure

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

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1. **General staff:** This group has a general background which is usually similar to the background of executives, and serves as assistants to top management in one capacity or another. They are not specialists and generally have no direct authority or responsibility of their own. They may be known as special assistants, assistant managers or in a college setting as deputy chairpersons.
2. **Special Staff:** Unlike the general staff which generally assists only one line executive, the specialized staffs provides expert advice and service to all 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, economic and public relations.

**B. Service capacity:** This group provides a service that is useful to the organization as a whole and not to any specific division or function. An example would be the personnel department serving the organization by procuring the needed personnel for all departments. Other areas of service include research and development, purchasing, statistical analysis, insurance problems and so on.

**C. Control capacity:** This group includes quality control staff who may have the authority to control the quality and enforce standards.

The line and staff type of organization uses the expertise of specialists without diluting the unity of command. With the advice of these specialists, the line managers also become more scientific and tend to develop a sense of objective analysis of business problems.

#### Check Your Progress

1. What is a formal organization?
2. State the five steps of the process of organizing.
3. What is a formal organization?

### 4.3 PRINCIPLES AND THEORIES OF ORGANIZATION

Corporate development depends on the speed of organizational behaviour, and organizational behaviour is affected by the behaviour of individual employees, their groups and structure. The foremost question arising herewith is what an organization is? Initially, one can state that an organization is the association of persons for achieving certain objectives.

An organization is a social system wherein its members try to achieve their private goals while achieving the organizational goals. The seemingly contradictory



goals are resolved by effective organizational behaviour. The organization, namely a unit, a business house, a government, an army, a charitable institution or any association of persons, has some objectives which are attained by organising the activities of their member. An organization for business purposes is commonly known as a corporate body or a corporation or a company or formally established business unit. An organization is the foundation upon which corporate management is built and developed. An organization is a structure, a process and a relationship to achieve corporate objectives under the given environment. An organization is not static. It is dynamic and ever changing as per the needs of society, its members, corporate objectives and environmental changes. Men form and develop organizations because they are unable to achieve the desired goals individually. They evolve different forms of organization according to their needs. An organization is a composition of people having different authorities and responsibilities to utilise existing resources for achieving the organizational objectives.

Mooney and Reiley defined organization as ‘the form of human association for attaining common objectives.’ The authority, responsibilities and the relationships between and amongst the members of an organization are also a part of organizational functions. The definition of an organization cannot include all the nature and functions of the organization. However, attempts have been made to define organization as ‘the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.’ An organization is established for achieving certain well-defined objectives. Once the objectives have been formulated, suitable plans or courses of action are prepared, appropriate structures and arrangements are decided upon, and the behaviour of individuals and group of people are moulded to achieve the objectives.

### **Features of an Organization**

An organization is just like a human body. It has some essential features, like structure, processes, relationships, authority and responsibility, performance and behaviour of individuals and groups.

### **Structure**

An organization is a structure which is used to arm people with specific relations and authority. Within the structure, people work to achieve the desired objectives. It is the skeleton around which an organization is built. Structure has a formal character. It is an arrangement for relationships, power, roles, functions and objectives. The structure is well-defined and formulated for grouping tasks, jobs, delegating authority, allocating responsibility and accountability, along with the number of persons involved in the managerial hierarchy and at the shop-floor level. The organizational structure helps management tasks to be done easily and smoothly through the identification of different tasks, grouping together of similar activities and assigning tasks to individuals. The allocation, supervision and functions

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are essentially designed under organizational structure. The formal relationship among persons working at different levels, well-defined authority and responsibility and individual actions and interactions are the bases of the structure of an organization. The structure concentrates on the division of work, specialisation, departmental delegation, formal relations, authority and responsibility, coordination of work, job design, grouping of jobs and work allocation. The structure is formally designed, and work is performed strictly according to the structural format. It has been observed in practice that a flexible organizational framework is formulated so that at the time of need for development and growth, the basic structure need not be changed. The mechanical system of organizational structure is not preferred to the organic system of structure.

The structure of framework of an organization should be adaptable, flexible, problem-solving and professional. The different levels or forms of structure must be interlinked in order to facilitate performing jobs effectively and efficiently. Structure in itself is not a solution. It requires people and their related activities. The structure should be framed considering the nature of the job and the characteristics of people who will use it. Structures are developed for people to work collectively, and not to fit individual personalities.

### Process

An organization is an operation within the structure. It is just like a body structure where the functions of each organ of the body are defined and specifically performed. An organization like the human body is an ongoing process of structure. It is a process of managerial function. It aims at organising work, arranging people and systems, developing technology, designing communication and providing an organizational climate. The organization is concerned with the organising process, including the decision of the course of action, division of various activities, assignment of tasks to proper persons, delegation of authority and responsibility, coordination of the various tasks and the decisions of the management. It is a means to an end and is a dynamic and adaptive process to coordinate a suitable process of management functions with the changing environment. The organizational process includes breaking up the entire work into different segments, assigning a definite role to each person, and coordinating and integrating the different functions to achieve the corporate objective with minimum effort and resources. Many authors have therefore defined organization as ‘a process of division of labour and function, coordination through authority and responsibility and putting people at place to work.’

### Relationship

The organization sets up certain forms of relationship to enable workers to perform their jobs harmoniously. Relationships are defined and designed as per the needs of the organization. Functional relations are developed to perform the activities of the organization. An established relationship is useful for training and development

of human resources. The organizational relationship is established on the basis of process, geography, department and product. The relationship is developed in such a way that there is a scope of adaptability to the changing environment to avoid complacency, stagnation and inefficiency.

An organization is a group wherein people work. Therefore, person-to-person relationships need to be defined clearly. Superior–subordinate relations, the superior–superior relations and subordinate–subordinate relations are established for the smooth functioning of organizational activities. The group interaction model has direct impact on the motivation and productivity. The organizational structure presents the different types of relationships as a unified whole for achieving the common goal of the organization. Hierarchical relationships bind persons operating at different levels of the organization for achieving the common goals of the organization.

### **Authority and Responsibility**

The structural relationship becomes effective with the allocation of authority and responsibility. Each cadre is specifically assigned the authority and responsibility for the tasks he has to perform. Organizational structure has well-defined authority and responsibility, explicit or implicit. Organizational rank and cadres are developed to delegate authority and responsibility, based on seniority, title, status and so on, to provide adequate administrative leverage. This is done to ensure clear delineation of authority and responsibility. In the absence of clear delineation, internal conflicts will develop. Moreover, there should be enough scope for human relationships while delegating authority and responsibility.

The organizational authority and responsibility have been exercised in different forms from the ‘herd’ concept to the ‘group’ concept from time to time. The herd concept placed exclusive power with the leader and enforced unquestioning obedience on the subordinates. Organizational evolution took the shape of the person-to-person concept thereafter, where the subordinate performs his functions in terms of a direct relationship with his superior. It involves delegation of authority and responsibility from superior to subordinate. The modern concept of organization believes in the development of mutual and harmonious relationships between subordinates and subordinates/and superior.

### **Performance**

The organization, by its performance, tries to achieve synergic results, which infers that the whole organization is greater than the sum of its parts. The organizational structure and process are designed to achieve the goals and objectives through effective performance which is possible with human resource development. Organizational development programmes maximise work motivations and creativity. Job enrichment, job enlargement and job satisfaction also come under organizational performance. Specialisation in particular is the core of an organization. It helps in the effective performance of the job. Discipline, unity of command, giving direction,

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scalar chain decentralisation and coordination need to be properly exercised to achieve good job performance in an organization.

### **Behaviour of Group**

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An organization is a composition of people. The success of an organization depends upon the behaviour of the people and the group. Individual groups and structures are the bases of group behaviour. Relationships on a person-to-person level and subordinate-to-subordinate as well as with the superior are established in a group. Formal and informal organization helps in developing proper behaviour of a group. Group behaviour has given birth to team work which has been accepted as the most effective form of organization. Team spirit, team performance, team rewards and team motivation have achieved new dimensions in big organizations in the beginning of the twenty-first century. The concept of family has been implanted into organizations. Groups in an organization have more effective behaviour. They can achieve something more together than what they can achieve individually.

### **Types of Organizations**

The various types of organizational structure and processes depend on the social setup of the country and the objectives of the business. Various jobs of the enterprise are integrated into an effective operational system. It defines the duties and responsibilities of people in each cadre. The functional and divisionalized types of company organization are generally prevalent in a company organization. Line, line and staff, staff and committee type of organization are well known in public administration and military organization. Business organization maintains some flexibilities so that the upward and downward movements may be possible at the time of development and decline of the business. This type of organization facilitates decentralisation and choice of product and geographical locations. The types of organization are line, line and staff, staff, functional project and committee organizations.

### **Line and Staff Organization**

A line and staff organization is a mixture of the line as well as staff organization. Line organization points out direct vertical relationships, i.e., superior-subordinate relationship connecting the positions at each level. It forms a chain of command or hierarchy of authority on scalar principles. A line relationship is simply known as a relationship of authority between the superior and subordinates in a hierarchical arrangement. The direct line superior has control over his immediate subordinates. In this case, authority flows downward and accountability goes upward in a straight line. The work also flows in a direct line. The line offices are responsible for accomplishing basic objectives, so that they can issue orders and implement plans and policies with the help of their subordinates. They are authorized to maintain discipline. The line organization maintains direct communication from the higher to lower levels and vice versa. If it is useful for maintaining discipline, it inhibits flexibility

and specialisation. It becomes autocratic and dictatorial. It is not used in business organizations.

*Organizing*

Staff organization is a specialized organization. It is purely advisory, having no authority of functions. It helps the line organization in the effective and efficient performance of business. Staff organization provides authority of investigation, research and advice to persons at the command of the functions. It provides technical or special advice to line organization in the form of personal assistants, personal secretaries, etc. There may be staff organization pertaining to law, accounting, research and development, quality control, etc.

Line and staff organization is useful in business operations. The advantages of specialisation and of functional activities are available under this organization. The line feature maintains discipline and stability, whereas staff incorporates expert knowledge.

Line organization takes the help of staff organization with reference to law, economy, accounting and specialized policies. Line organization has grown because of the ever increasing role of staff people. The need for staff organization is felt because of the emergence of large-scale enterprises, growing knowledge and technology, specialized services and so on. The socio-economic conditions in the country have been rapidly changing. Enterprises operate amid complexities and dynamic environments. There is a need to secure advice from different fields such as science, technology, mathematics, operations research, systems analysis, psychology, sociology and computer applications for the effective functioning of line activities. The help and advice rendered by the staff is very useful to the line managers who are always busy with routine functions.

### **Functional Organization**

Functional organization is technically called functional foremanship because the function itself becomes a supervisor and the employees automatically perform their respective duties. The emphasis is on operations rather than on management. Functional organization is commonly used in business. The spirit of organization, which involves grouping tasks together and allocating them to genuine employees is observed in functional organization. Functional sets like marketing, finance, production and personal are grouped systematically. Departments and sub departments are developed according to the requirements of the business. Functional organization is the basic building block or module from which other forms of organization are built.

Functional organization is characterised by functions, sub-goal emphasis, division of work, functional relationship, centralisation and decentralisation, span of control, divisionalization of product and regionalisation. All employees are not equal; they have distinctive and special interests in different activities, while some of them having similar interests and qualities are grouped together to form a set of similar activities. Their performance and control becomes easy. Effectiveness of the organization is increased with the development of functional organization which

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may be horizontal or vertical. Horizontal functions include those activities which are performed with the same amount of authority and responsibilities at the same level.

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Functional organization is developed for exploiting the specialities of people who concentrate on their specialisation and preference. Sub-unit goals are achieved effectively with specialized functioning. Growth is possible with the use of horizontal and vertical organization. The advantages of line and staff organization can be fully achieved only with the development of functional organization within them. Performance and achievements are operating goals of organization, which can be attained if the functions, sub-functions and other lower functions are diversified and well-defined, and suitable persons are entrusted with these diversified functions, being held personally responsible for operations and achievements. Although multiple supervisors come into operation, the main functions of organization are not diluted, as functional authority is next to line authority which exists in every type of organization. Functional specialists are endowed with command of functions and their effective performance. The coordination of different functions is done by the line organization. Centralised authority and decentralised functioning are visible in such cases. With a suitable span of management, control of different functions becomes easy under functional organization.

### Product Functional Organization

Product functional organization establishes each product or group of related products as an autonomous unit in the framework of the organization.

Product functional organization necessitates finding out the economic viability of each product. Some of these products are required for image building. For example, Tata is famous for steel although it has entered the consumer markets. There is a need for constant watch and evaluation of the performance of each product. If the company is producing a large number of products, all the products will not form the product organization, because that would be a very uneconomical organizational part of structure. The related products are grouped together and managed under the main product organization. Innovation, interdependence, economy of scale and divergent production are feasible under product functionalization.

### Process Functional Organization

Functional organization becomes effective if each process of production is given autonomy and independence. The nature of production helps decide process organization. For example, a textile company has several departments based on process, namely spinning, weaving, materials management, and so on. Each department is looked after by the expert of the area. They are given functional foremanship based on process functional organization. The office work is separated from shop or plant functions and each of these processes forms the base of the organization.

## Geographical Functional Organization

Geographical functional organization involves grouping of the activities according to regional or geographical locations. The territorial divisions become a complete administrative unit to cater to the needs of the localities.

## Project Organization

Project organization is used to complete a project or task. The project manager has people from several functional departments such as production, finance, marketing and so on. Specialists are drawn to perform their respective roles in the total project. The structure is derived not from some principles but from the job requirements. Project organization brings together people of different expertise for the completion of the project. As soon as the project is completed, the experts are returned to their original departments in the head office. For example, in a bridge construction project, the engineers, financial manager, human resources people and other related people are brought to the site of the project where project organization, the structure and process, is developed. The people are organised and allocated specialized jobs by the Project Manager who will be the top person managing the project by utilising all the resources. As soon as the project is completed, the employees are returned to the head office or transferred to another project.

## Committee Organization

A committee organization is an association of people set up to arrive at solutions to common problems. The line people are given opportunities to discuss their problems in the committee. This organization is not like line or functional organization, but is similar to staff organization. Its decisions are implemented, whereas staff decisions are not necessarily implemented. It is a formal part of the organizational structure wherein the members are specifically mentioned. For example, the Finance Committee will include all the functional managers, viz. Marketing Manager, Production Manager, Personnel Managers, etc., as members, and the Managing Director as the Chairman. It will decide the financial requirements of each and every department. The decisions taken by the committee are followed by the line people, as the committees are representatives of various functional departments. Committee organization provides integrated ideas of various related people of the company. Participative management in true form is visible under committee organization. It is an incentive to volunteer to form integrated ideas and to willingly follow them. New ideas and solutions of various problems are feasible with the committee organization. It is a very good example of democratic management wherein every member has an equal opportunity to raise his voice and come to a common solution. Flexibility and technical excellence are possible under this organization. The top management is relieved from certain problems. The company can encounter the changing and uncertain environment in a better way. It facilitates high quality and innovative solutions to technical problems. Coordination and

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control become easy because open discussion is invited in the committee. Ideas and specialized functions are feasible under committee organization. However, committee organization may prove ineffective in some cases because of time consuming and inefficient devices, aggressive attitudes of some persons and the inactive role of a particular group. The committee organization should not be used to supplement or support inefficient managers. An able and competent top manager with the capacity to handle the proceedings of the committee and manage disgruntled employees during meetings can get the maximum benefits out of committee organization. On the contrary, a weak and submissive manager or chairman may cause a number of problems in committee organization.

**Approaches to Organization**

Approaches to organization have developed from time to time in different forms. There have been different approaches to organization, but they are broadly classified into three categories, viz. Classical, Neo-classical and Modern approaches.

**Classical Approach**

The classical approach means the traditional or established approach. It does not mean that the classical approach is old or obsolete. Some of the approaches are very useful even today. Theories developed at the early stages were included under classical approach. Bureaucratic, administrative and scientific approaches are well known under classical approaches. They emphasise on the structural or functional factors. The classical approach stresses on four S's, i.e. structure, specialisation, scalar principle and the span of control. It lays emphasis on the organizational structure. The classical approach is well known in theory. It treats employees as economic beings like machines and money. Their maximum exploitation is suggested by applying the bureaucratic and coercive approach. Hire and fire is the basic approach of the classical theory. It leads to a dehumanised organizational structure without considering the factors of flexibility and adaptability. The rules and regulations become the governing factors. Specialisation based on the division of labour, scalar chain hierarchical organization, discipline, etc. are the advantages of the classical approach. This approach ignores the significance of human beings in organizational growth. There is an absence of flexibility, adaptability, intrinsic rewards and personal attachment. Ignoring initiatives, innovation and changes is not beneficial for the health of an organization.

**Neo-classical Approach**

The neo-classical approach emphasises that the organization is a social system in which individuals are important elements of management. It is a people-oriented approach, although the basic tenants of classical approach, i.e., specialization, unity of command and hierarchical organization, are preserved under this approach in a modified form. It is a behavioural science approach and gives importance to human relations in the organization. It is very well known as Theory Y, which is a



people-oriented approach. It believes in the informal organization and relations along with the formal system. The motives, needs, desires, morale, etc. are considered important factors of organizational success. Men who are properly managed and motivated can contribute more by utilising physical resources. Unlike the classical approach, it gives more importance to human behaviour rather than the economic well-being of people. The organizational structure developed by classical protagonists can be gainfully used if the human beings attached to the structure are willing and enthusiastically perform their assigned jobs. The coordination and control which are imposed upon employees under the classical approach are self generated and practised under the neo-classical approach. Democratic participation is suggested by developing human beings. It is a humanised approach. Social factors are given more importance while organising people. If the classical approach emphasises on the structure and framework of an organization, the neo-classical approach suggests functioning by the willing cooperation of employees. The neo-classical approach has defined activities for each group wherein inter and intra-group activities are perpetuated.

### **Modern Approach**

The disadvantages of the classical approach were modified under the neo-classical approach. However, the neo-classical approach could not take a final shape because of the diverse problems of individuals, groups and social units. Therefore, the modern approach was developed wherein the process is to be performed under a set structure and system. Within the structure or system, the individual acts, reacts and interacts as per the change in individuals, groups and society. The environmental and technological changes are well evaluated and the management functions are adapted accordingly. It believes in change and organization adaptability to increase the efficiency of the organization. An organization should not be rigid, ruthless and dominated by rules, but should be adaptive, open and creative. The role of the leader is very important in the organization because he needs to monitor the functioning with changing situations and environment. The system formulates sub-systems which will work with certain inter and intra-relationships. This environment-oriented approach is also known as the contingency approach wherein situational and transactional solutions are the deciding factors of organization. It requires the appropriate organizational structure and an effective leadership style.

#### **4.3.1 Theories of Organization**

Based on the approaches of organization, some authors have developed theories of organization. They are known as Classical theories, Neo-classical theories and Modern organizational theories.

#### **Classical Theories**

Classical theories are based on traditional thinking. These theories were first propounded in 1900 and incorporated original and initial ideas of management.

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The classical theories were devoted mainly to the superior's authority, objectives, rules and economic activities. The theories are broadly divided into (1) Bureaucracy (2) Scientific management and (3) Process management.

## NOTES

### **Bureaucracy**

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

### **Neo-classical Theories**

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

### **Human Relations**

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

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

### **Behavioural Science**

The Behavioural Science theory believes in inter-personal relations. While human relations concentrates on morale and productivity, behavioural science lays emphasis on inter-personal roles and relationships. F. Herryberg and V. Vroom suggested motorational models after Maslow who developed the need hierarchy. Sociologists and psychologists contributed significantly to the areas of behavioural science for treating the human element as a social system. Group behaviour was given more importance. McGregor Arguris and Likert believed that self-actualised man would contribute to the development of management. They emphasised democratic values and human motivation. The task itself is the primary source of satisfaction and self-motivation. Unlike the beliefs of the classical theory, behavioural science believes that human beings like work but it should not be super-imposed and should instead be self-realized. They enjoy work and believe in self-discretion and self-control. They are interested in their own jobs and creativity in a healthy, safe, comfortable and congenial environment. People consider themselves to be important persons and like to be treated as important people by their superiors. The behavioural science theory tries to develop new insights and brings about a congenial environment in the factory whereby new thinking and new techniques put forward by employees are welcome.

### **Modern Theories**

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

### **Quantitative Theory**

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

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Operation research is conducted by diverse specialists and management experts. It is useful from the levels of planning for organising, actuating and control. It is known that mathematical models do not provide the ultimate solutions. If they are used in a given environment with real assumptions, they can suggest appropriate measures which can be used for solving problems. The quantitative approach is merely a tool for finding a suitable solution, but is not a solution in itself. It has become a valuable supplement rather than a substitute for management and organization. The role of human skills and behaviour cannot be ignored for the purpose of management. Even in highly computerised systems, the human element cannot be ignored. The use of computers has economised and facilitated many problems. The management does not need to resort to monotonous cumbersome processes but can easily and swiftly find the real problem or can diagnose the problem with real solutions. Computers have helped managements and people arrive at correct decisions which would not be possible without the use of quantitative techniques. This precise and prompt approach has also prevented other problems.

### System Theory

A system is a set of interconnected and inter-related elements of management activity. It is an arrangement of components of activities performed for achieving certain objectives. Thus, a system has three components; arrangement, objectives and a plan. The arrangement is designed and planned in an effective manner to achieve the objective. Men, materials and money are planned to achieve the objectives of the organization. Recently, it has been agreed that the organization is a system wherein operation, marketing, finance, etc. are subsystems. The modern organization theory believes in the General Systems Theory (GST) which is applicable to all scientific phenomena. Kenneth and Boulding have contributed a systems theory to establish to single, self-contained and generalised theory for particular disciplines. The system approach believes in a static structure and a dynamic and cybernetic system. It has increased mobility, technological behaviour, self-awareness and the goal-directed approach. The system is an organization wherein the various components are subsystems which are managed and mobilised for attaining the organizational goals. It is an interconnected, interdependent and interacting arrangement of men and materials. For example, business is a social technical system, a plant is a botanical system, and a car is a mechanical system and so on.

### Contingency Theory

The contingency theory is an extension of the open system. It has an adaptable approach which is applicable to all situations. Organising a business based on changing situations and the environment has its own quality and advantages. It is ready to cope with the increasing needs of the company and society. The contingency theory is a situational theory which changes its approach according to the requirements of the situation. It is away from the angle of different theories of

management, although it cannot claim that the valuable theories of management are not applied for solving the problem. It is an attempt to provide something more contributory for the help of practising managers.

*Organizing*

### **Check Your Progress**

4. Define organization according to Mooney and Reiley.
5. What is a staff organization?

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

1. A formal organization is a cooperative system in which people gather together and formally agree to combine their efforts for a common purpose.
2. The process of organizing consists of the following five steps:
  - Reviewing plans and objectives
  - Determining activities
  - Classifying and grouping activities
  - Assigning work and resources
  - Evaluating results
3. 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.
4. Mooney and Reiley defined organization as 'the form of human association for attaining common objectives.
5. Staff organization is a specialized organization. It is purely advisory, having no authority of functions. It helps the line organization in the effective and efficient performance of business.

### **4.5 SUMMARY**

- A formal organization is a cooperative system in which people gather together and formally agree to combine their efforts for a common purpose.
- 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.

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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.
- The informal organization is a powerful instrument in all organizations and sometimes it can mean the difference between success and failure of the organization.
- Organizational structure involves arrangement of activities and assignment of personnel to these activities in order to achieve the organizational goals in an efficient manner.
- ‘Stability strategies will be more successful when supported by mechanistic structures; growth strategies will be more successful when supported by organic structures.’
- The line structure is the simplest form of organization and is most common among small companies.
- An organization is a social system wherein its members try to achieve their private goals while achieving the organizational goals. The seemingly contradictory goals are resolved by effective organizational behaviour.
- An organization is just like a human body. It has some essential features, like structure, processes, relationships, authority and responsibility, performance and behaviour of individuals and groups.
- An organization is an operation within the structure. It is just like a body structure where the functions of each organ of the body are defined and specifically performed.
- A line and staff organization is a mixture of the line as well as staff organization. Line organization points out direct vertical relationships, i.e., superior-subordinate relationship connecting the positions at each level.
- Based on the approaches of organization, some authors have developed theories of organization. They are known as Classical theories, Neo-classical theories and Modern organizational theories.
- Neo-classical theories while accepting the merits of classical theories have given more importance to human relations and behavioural sciences.
- Modern organizational behaviour has become complex. It synthesises the classical and neo-classical theories, while incorporating technological development.

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## 4.6 KEY WORDS

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- **Synergy:** Synergy is the interaction or cooperation of two or more organizations, substances, or other agents to produce a combined effect greater than the sum of their separate effects.

- **Authority:** Authority is defined as the right to give orders, supervise the work of others and make certain decisions.
- **Informal organization:** The informal organization is the interlocking social structure that governs how people work together in practice.
- **Line organization:** Line organization is the oldest and simplest method of administrative organization. According to this type of organization, the authority flows from top to bottom in a concern. The line of command is carried out from top to bottom.

## NOTES

### 4.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

#### Short-Answer Questions

1. Mention the guidelines for effective organization?
2. Differentiate between formal and informal organizations.
3. What do you understand by the term 'organizational structure?'
4. What are the benefits of a good organizational structure?
5. What is the difference between mechanistic structure and organic structure?
6. Mention the various features of an organization.

#### Long-Answer Question

1. Describe the importance of organizing.
2. Explain the process of organization.
3. Discuss the importance of a good organizational structure.
4. Describe the various steps in organizational structuring.
5. Explain the different types of organizational structures.
6. Discuss the three types of approaches to organization.

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## UNIT 5 DEPARTMENTATION

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### NOTES

#### Structure

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### 5.0 INTRODUCTION

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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. In this unit, you will deal with the process of departmentation and functions. This unit will also discuss the concept of span of control and authority. You will also explain the concept of centralization and decentralization.

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### 5.1 OBJECTIVES

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

- Explain the process of departmentation
- Discuss the concept of span of control and authority
- Differentiate between centralization and decentralization

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### 5.2 PROCESS OF DEPARTMENTATION AND FUNCTIONS

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



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

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### **The Functional Structure**

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

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 and do not get 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 the 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 which allows an organization to coordinate intergroup relationships more effectively. It involves grouping of people or activities with similar characteristics into a single department or unit.

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

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### 5.2.1 Span of Control

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Span of management is related to the number of subordinates a manager can effectively manage. The quality of supervision becomes poor and coordination becomes weak when large number of subordinates work under a single manager. However, if the number of subordinates is too small, then the managerial abilities of the manager may not be fully utilised. A balance between these two extremes needs to be maintained in order to use the 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.

According to Peter F. Drucker, span of control refers to the limit of number of subordinates reporting directly to a superior. Koontz and O'Donnell used this term to represent the limit on the number of persons that an individual can effectively manage. In a classical type of organizational structure, which is the most common form, the effectiveness and efficiency of operations are determined by the number of people under the direct supervision of a manager. For effective operations, it is necessary to have the optimum number of subordinates to supervise. As discussed above, the informal groups have significant impact on the span of management. If the supervisor has cordial relations with his subordinates and the subordinates are dedicated to their work for professional as well as social reasons, then more subordinates can be assigned to each supervisor and less managerial time will be needed to deal with the subordinates.

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

- **Similarity of functions:** If the subordinates are involved in the 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 would be narrow.
- **Complexity of functions:** If the operations that the 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 and hence a narrow span of control would be desirable.
- **Geographical closeness of employees:** The closer the subordinates are to each other in a physical location, the easier it will be for the manager to manage more employees.
- **Direction and coordination:** The span of control would also be determined by the degree of coordination required, both within the units and with units in other departments. If the units need continuous directions and extra time

of managers in coordinating these activities, then fewer subordinates would be better supervised.

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- **Capacity of subordinates:** Subordinates who are well trained, professionally developed 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 operations and routine recurring problems, thus requiring less supervisory assistance.
- **The working staff of the manager:** If the manager has a supporting staff that is equally skilled in handling situations, then it would be possible to manage a wider span of control because the responsibilities of supervision would be shared.

The optimum number of subordinates under any one manager would vary and directly depend upon the type of relationship between the manager and subordinates, not only on a one-to-one basis but also with subordinates as groups, taking into consideration the cross-relationships among the employees themselves. Based upon the intricacies of these relationships, Lyndall F. Urwick concluded, 'No executive should attempt to supervise directly the work of more than five or at the most six direct subordinates whose work interlocks.' This is considered as ideal because too wide a span would put a heavy burden on management in effective guidance and control and too narrow a span would mean underutilisation of managerial capacity, ability and resources.

### Span of Control and Levels of Organization

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 spans 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 the manager's services and over-controlling of subordinates.
- **Wide span:** It may lead to over-straining of manager and lack of effective control over subordinates.

Span of control has an important bearing on the shape of an 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

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

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- The main advantage of narrow span is that effective leadership and control can be directly exercised on subordinates.
- The senior 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. Following are the limitations of the 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 is required which results in additional salaries and high cost of management.
- A tall structure may have its adverse impact over morale because of the absence of close link between the top executive and bottom worker.

### Wide Span Structure

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

### Factors Affecting Span of Management

Following are the factors that affect the span of management:

- **Management policies:** Management has 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 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.

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- **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. The 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.

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**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 impact over the size of span. Similarly, a wider span of control may prevail when the work of the subordinates can be controlled through written reports.

### Limitations of Span of Management

Limitations of span of management are as follows:

- Existence of too many levels is expensive because the organization has to bear the burden.
- Too many levels (span) complicate the communication between the manager and its subordinates. Omissions and misinterpretations increase with wide spans.
- Existence of too many levels and numerous departments create problems even in the planning and control process. A well-defined plan loses clarity and coordination as it passed to the lower and lower levels. In a similar way control becomes difficult with too many managers.
- Handling of superior subordinate relationships on smooth lines is must for the success of any organization. Larger spans and too many managers may complicate the synchronised relationships between workers and management
- Division of activities among various departments and creation of hierarchical levels are not completely desirable as departmentalisation is not an end for achieving effectiveness in organization.

### 5.2.2 Line and Staff Functions

In an organization, the line structure consists of functional specialists that help the organization to achieve its primary objectives. The staff structure of an organization is basically advisory in nature and usually does not possess authority over the line managers. They help and assist the line executives to work effectively for

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accomplishing the primary objectives of an organization. There are two types of staff in an organization:

1. **General staff:** Members in this group are not specialists and generally have no direct authority or responsibility of their own. They have a background similar to the executives in an organization and act as assistants to top management in one capacity or another. The members included in this group are known as special assistants, assistant managers or in a college set up as deputy chairpersons.
2. **Special Staff:** Unlike the general staff, the specialised staff provides expert advice to the employees of an entire organization. This group has a specialised background in some functional area and can serve in any of the following capacities:
  - o **Advisory capacity:** The primary purpose of the special staff group is to render specialised advice and assistance to the management of an organization. Some typical areas covered by advisory staff are legal, economic and public relations.
  - o **Service capacity:** The special staff group provides a service that is useful for the organization as a whole and not to any specific division or function. For example, the personnel department in an organization trains all the employees of an organization. Some typical areas covered by service staff are research and development, purchasing, statistical analysis and insurance problems.
  - o **Control capacity:** This group includes quality control staff that has authority to control the quality of products and services and enforce standards.

### Check Your Progress

1. What is departmentation?
2. What is the purpose of departmentation?
3. State one of the main disadvantages of the functional design.

## 5.3 AUTHORITY AND RESPONSIBILITY

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

### Concept of Authority

Despite its irresistible importance, the term authority is not very clearly defined and is usually taken in different meanings at different levels like superior knowledge,

official position, legal relationship, leadership and many more. It is a right, which should be vested in the hands of both superiors and subordinates making them utilise organizational resources and thereby taking appropriate decisions. In simple words, it is the right to act.

### Definition

In management, authority may be defined as, 'The right to guide and direct the actions of others and to secure from them responses which are sufficient to attain the organizational goals'.

In the words of Bernard, 'Authority is the character of communication (order) in a formal organization by virtue of which it is accepted by a contributor to, of member of an organization as generating the action he contributes, as governing or determining what he does or is not to do so far as the organization is concerned.'

In the words of Terry; 'Authority is exercised by making decisions and seeing that they are carried out'.

### Characteristics of Authority

The main characteristics of authority are as follows:

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

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- 8. Delegation:** Authority can be delegated by a superior to his subordinate who can further transfer a part of the authority to their subordinates.

### Sources of Authority

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

- 1. Formal Authority Theory:** According to this theory, authority originates at the top of an organization and flows downward through the process of delegation. The Board of Directors stand at the top of the organizational hierarchy. Each and every member of board can delegate either full or a part of their authority to the Chief Executives who in turn, can delegate it to Departmental Heads and so on. But the extent of authority is predetermined by the immediate superior who is delegating it, and the person to whom it is delegated is not allowed to exceed that limit. Therefore it is clear that authority always lies at the top and moves down the scalar chain depending on the various positions. It is therefore traditional and legitimate. It is formal because it creates a relationship between subordinates and their immediate superiors.
- 2. Acceptance Authority Theory:** Formal Authority Theory is of no significance unless it is willingly accepted by the subordinates. They will accept only if they think that the advantages of acceptance are greater than the disadvantages of non-acceptance. The decision regarding whether the order has the authority depends upon the individual to whom it is addressed and not on the individual who issues it. The subordinate will accept the authority if he gets recognition, appraisal, rewards and promotion for doing so. According to Chester Barnard, authority flows upward and therefore it should be called Bottom Up authority. This theory has a disadvantage that it cannot be carried out in case it is not willingly accepted by the subordinates.
- 3. Competence Theory:** This theory says that it is not necessary that each and every individual should have the formal authority, meaning thereby that personal qualities or technical competence of an individual also flow as an order wherever necessary. Henry Fayol has called it “authority of personality”. A manager utilises authority by virtue of his expert knowledge, intelligence and skill. Both a staff specialist and a subordinate possess and accept this authority due to their expert knowledge.

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

### Delegation of Authority

Delegation is the downward transfer of formal authority from one person to another. Superiors delegate authority to subordinates to facilitate the accomplishment of the assigned work. Delegation of authority becomes necessary as the organization grows. The chief executive cannot perform all the tasks of the organization himself



so that he must share some of his duties with his immediate subordinates. This process continues until all activities are assigned to persons who are made responsible for performing them.

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### Principles for Delegation

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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.

### Responsibility

Responsibility has been defined in various ways. Mostly it is considered to be the 'duty' to perform certain assigned tasks in a satisfactory manner. It is the obligation of an individual to perform certain activities which are assigned to him, the source of responsibility lies within the individual. If he accepts a job or 'responsibility', he

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should see that the job is completed to the best of his ability. It is governed by contractual as well as moral obligations. Contractual obligations ensure that the job is done and morality ensures that it is done honestly and efficiently.

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

Responsibility in one sense is accountability for authority. An authority misused has a negative effect on operations. It must be used in a responsible manner. The responsibility factors weigh very heavily in performance evaluation of individuals, especially managers. Samuel C. Certo has listed four areas which can be analysed to determine the degree of responsibility a manager possesses. These are as follows:

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

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

### 5.3.1 Centralization and Decentralization

Centralization means that the authority for most decisions is concentrated at the top of the managerial hierarchy and decentralization requires such authority to be dispersed by extension and delegation through all levels of management. There are advantages as well as disadvantages of both types of structures and the organizational structure determines the degree of centralization or decentralization. A pure form of centralization is not practical, except in small companies, and pure

form of decentralization almost never exists. As organizations grow bigger by expansion, mergers or acquisitions, decentralization becomes both necessary as well as practical. If an automobile manufacturing company acquires a company which makes refrigerators, then decentralization would be the natural outcome since policies and decisions in these two areas may not be similar. The important question is not whether there should be decentralization, but decentralization to what degree? In addition to decentralization being logistically superior in most situations, it is also advocated by many behavioural scientists as being more democratic. Secondly, if all decisions are made at the top, then the lower organizational members end up only as workers and not as innovators or thinkers, and it inhibits the growth and development of personnel. On the other hand, decentralization tends to create a climate whereby taking additional responsibilities and challenges enable the organizational members to receive executive training for growth and development.

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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 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.

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- 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.

### Advantages of Centralization

The following advantages are claimed for centralization:

1. It is a means for adopting and enforcing uniform policies and it achieves coordination and conformity since all decisions are made at one central point.

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2. The quality of the decisions is expected to be higher since the top management who make such decisions are much more experienced and knowledgeable about organizational problems and situations than the subordinates who are still “going through the mill”. Also, decisions made by subordinates in decentralization may not be optimal for the entire organization since the subordinates lack the wider perspective of the needs and issues of the organization as a whole and tend to concentrate on the optimality of their own units.
3. Centralization makes it easier to achieve a balance among the activities of different departments and functional areas. If the departments of production, marketing and finance, each went its own way, then each would try to make decisions that would be beneficial to its own department, even at the cost of other departments. This would be harmful to the organization as a whole. The centralised system looks at these different sub-units as parts of the whole unit and relates these sub-units to each other so as to maximise the total benefits.
4. Centralization results in the optimal utilization 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.
5. The Central management is better equipped to handle any emergencies that might affect all the units of the organization. This emergency may be related to policy matters or operational matters. This may be a breakthrough in technology or a sudden change in the tactics of competitors. For example, if one airline suddenly and drastically reduces its airfares, other airlines must follow immediately to keep their market share. This can only be effectively done through central management.
6. Centralization provides for the services of staff specialists in those areas where they are needed. Different units of the same organization independently would not have the resources to provide for specialised services.
7. Centralization can be highly motivating and morale boosting for executives. It is better to be an important executive of the whole organization than only of one unit. It provides prestige and power which strengthens the self-confidence which in turn would be useful in decision making at time of a crisis.

### Advantages of Decentralization

The following advantages are claimed for decentralization:

1. It relieves the top executive from excessive workload, since in decentralization, most of the routine managerial responsibilities are delegated

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to subordinates. This gives the central management more time to concentrate on planning, coordination, policymaking, control and so on.

2. It provides foundations for development of future executives. The more responsibility is given to subordinates, the more experience they will gain, thus preparing them for higher positions. This makes promotions from within more desirable because these newly promoted managers would be much more familiar with the organizational problems and aspects.
3. Decentralization is highly motivational for subordinates because it gives them the freedom to act and freedom to make decisions. This gives them a feeling of status and recognition and this results in a feeling of dedication, commitment and belonging. The behavioural scientists argue that such commitment leads to higher productivity.
4. Decentralization leads to prompt actions and quick decisions, since the matters do not have to be referred to the higher-ups and spending time for their guidance, approvals or decisions. Also, the supervisors are much closer to the points of operations and are in a position to know the problems more accurately and are more likely to make the right decisions.
5. Decentralization results in effective control over operations and processes. In decentralization, the responsibility is much more specific and any mistakes are easily traceable. This makes the accountability much more clear-cut and hence controls much more effective. This would make the managers of the units much more conscious of their duties resulting in higher productivity. It can be seen that decentralization is advantageous in most situations and unavoidable in large diversified organizations. To make decentralization more effective, its concept must be clearly understood that it does not mean total autonomy but only operational independence and the unit managers are responsible to the central management for their actions and results. Perhaps, the best form of decentralization would be centralised control with decentralized responsibilities.

### Check Your Progress

4. Define the term 'authority'.
5. Mention any two main characteristics of authority.

## 5.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Departmentation is the process of grouping related work activities into manageable work units with some logical arrangement.
2. The purpose of departmentation is to make a more efficient and effective use of organizational resources.

3. 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.
4. In management, authority may be defined as, 'The right to guide and direct the actions of others and to secure from them responses which are sufficient to attain the organizational goals'.
5. The two main characteristics of authority are as follows:
  - Legality and legitimacy
  - Predefined limits

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### 5.5 SUMMARY

- Departmentation fits into two general categories, namely, functional and divisional and the divisional structures are based on groupings of different activities.
- The functional design is also known as a U-form organization (U stands for unity) and it groups positions into departments according to their main functional areas.
- 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.
- An alternative to the functional structure is the divisional structure which allows an organization to coordinate intergroup relationships more effectively.
- Span of management is related to the number of subordinates a manager can effectively manage.
- The span of control in practice is also affected by other factors such as time availability, degree of decentralization and control practices.
- In an organization, the line structure consists of functional specialists that help the organization to achieve its primary objectives.
- The staff structure of an organization is basically advisory in nature and usually does not possess authority over the line managers.
- Authority is considered as the root of an organizational structure. It integrates different units of an organization.
- The scope of authority is not absolute in any organization. It is maximum at the top level and minimum at bottom level.
- 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.

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- 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.
- 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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### 5.6 KEY WORDS

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- **Functional design:** The functional design is also known as a U-form organization (U stands for unity) and it groups positions into departments according to their main functional areas.
- **Customer Structure:** This type of structure is used by those organizations which deal differently with different types of customers.
- **Span of management:** Span of management is related to the number of subordinates a manager can effectively manage.
- **Delegation:** Delegation is the downward transfer of formal authority from one person to another.

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### 5.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. What are the two general categories of departmentation?
2. Identify the three major forms of divisional structures.
3. Mention the types of span of control structures.
4. What are the advantages of the wide span structure?
5. List the various factors that affect span of management.
6. What are the main disadvantages of line and staff structures?

#### Long-Answer Question

1. Explain the process of departmentation.
2. Discuss the concept of span of control.
3. Describe the limitations of span of management.
4. Explain the formal authority theory.
5. Write a detailed note on the scope of authority.
6. Differentiate between centralization and decentralization.



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## 5.8 FURTHER READINGS

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## NOTES

## NOTES

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## BLOCK II

### PERSONAL AREA OF MANAGEMENT

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## UNIT 6    DELEGATION

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### Structure

- 6.0 Introduction
  - 6.1 Objectives
  - 6.2 Process of Delegation
    - 6.2.1 Importance of Delegation
  - 6.3 Problems with Delegation
    - 6.3.1 Overcoming Obstacles
  - 6.4 Answers to Check Your Progress Questions
  - 6.5 Summary
  - 6.6 Key Words
  - 6.7 Self Assessment Questions and Exercises
  - 6.8 Further Readings
- 

### 6.0 INTRODUCTION

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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. In this unit, you will learn about the process of delegation, its importance and types. This unit will also discuss the various problems of delegation.

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### 6.1 OBJECTIVES

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

- Define the process of delegation
  - Identify the importance and types of delegation
  - Discuss the various problems of delegation
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### 6.2 PROCESS OF DELEGATION

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

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 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.

## NOTES

### 6.2.1 Importance 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

**NOTES**

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 utilise their skills more effectively.

3. It is a motivational factor. Subordinates usually respond to delegated authority with a 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 the problem-solving process when they reach a higher executive level. This process also screens out those from the executive level who have proved to be less successful in handling problems at the lower level.

<b>Check Your Progress</b>
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- |   |
|---|
| <ol style="list-style-type: none"> <li>1. What is delegation?</li> <li>2. What is the first step in the process of delegation?</li> </ol> |
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### **6.3 PROBLEMS WITH DELEGATION**

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One of the major problems with delegation of authority is that the central management is far removed from the actual operations where the decisions are made so that it becomes difficult to pinpoint major problems when they occur because decisions are made by any of the subordinates. The second problem may lie in the area of coordination. If coordination among these many subordinates is not adequate, then confusion may result and it may become difficult to exercise control over procedures and policies. Finally, it may be difficult to perfectly match the task with the capability of the subordinate.

#### **Personal Factors as Barriers to Delegation**

Even though delegation of authority has some definite advantages and may be even necessary for optimal organizational operations, some managers are very reluctant to delegate authority and many subordinates avoid taking on the authority and the responsibility that goes with it. The general causes for such reluctance are based upon certain beliefs and attitudes, which are personal and behavioural in nature.

## Reluctance of Executives

Eugene Raudsepp has listed several reasons as to why managers are sometimes unwilling to delegate. Some of these reasons are as follows:

1. An executive may believe that he can do his work better than his subordinates. He might believe that his subordinates are not capable enough. Delegation may require a lot of time in explaining the task and the responsibility to the subordinate and the manager may not have the patience to explain, supervise and correct any mistakes. For example, many professors type their own technical papers and exams rather than give the responsibility to the secretary who may not be technically oriented and thus explaining it to her would be time consuming.
2. A manager may lack confidence and trust in his subordinates. Since the manager is responsible for the actions of his subordinates, he may not be willing to take chances with the subordinates, in case the job is not done right.
3. Some managers lack the ability to direct their subordinates. They may not be good in organizing their thoughts as well as their activities and thus may not know what to do after delegation in order to help the subordinates to complete the task.
4. Some managers feel very insecure in delegating authority, especially when the subordinate is capable of doing the job better. The manager, in such a situation, may fear his loss of power and competition from the subordinate.
5. A manager may fear being known as lazy, if he delegates most of his tasks. Since everybody wants to at least look busy, it will be difficult for managers to do so if they do not have much to do for themselves due to delegation. Managers may be reluctant to give that impression.
6. An executive may be reluctant to delegate if he believes that the control system is not adequate in providing early warning of problems and difficulties that may arise in the delegated duties, thus delaying the corrective decisions and actions.

## NOTES

## Reluctance of Subordinates

While delegation of authority can be a highly motivating factor for some subordinates, others may be reluctant to accept it for the following reasons:

1. Many subordinates are reluctant to accept authority and make decisions for fear that they would be criticised or dismissed for making wrong decisions. This is especially true in situations where a subordinate has made a mistake earlier.
2. The subordinates may not be given sufficient incentives for assuming extra responsibility, which could mean working harder under pressure. Accordingly, in the absence of adequate compensation in the form of higher

## NOTES

salary or promotional opportunities, a subordinate may avoid additional responsibility and authority.

3. A subordinate may lack self-confidence in doing the job and may fear that the supervisor will not be available for guidance once the delegation is accepted, and this may make the subordinate feel uncomfortable with additional tasks.
4. Some subordinates hesitate to accept new and added assignments when there is a lack of necessary information and when the available resources are not adequate or proper.

### 6.3.1 Overcoming Obstacles

Since delegation results in several organizational benefits, it becomes necessary for the management to remove any barriers to effective delegation. In addition to taking some specific actions, Koontz and O'Donnell believe that management should possess characteristics such as willingness to consider the ideas of others more seriously, trust in the ability of the subordinates and giving them the freedom to make decisions. They should encourage subordinates to take calculated risks, make acceptable mistakes and learn from them. Accordingly, management may initiate some of the following steps:

1. **Delegation to be complete and clearly understood:** The subordinate must know precisely what he has to know and do. It should be preferably in writing with specific instructions so that the subordinate does not repeatedly refer problems to the manager for his opinion or decision.
2. **Proper selection and training:** The management must make proper assessment of subordinates in terms of their abilities and limitations before delegating the proper authority. Additionally, management must work closely with the subordinates in training them in how to improve their job performance. This constant communication will build up the self-confidence of the subordinates.
3. **Motivation of subordinates:** Management must remain sensitive to the needs and goals of subordinates. The challenge of added responsibility in itself may not be a sufficient motivator. Accordingly, adequate incentives in the form of promotion, status, better working conditions or additional bonuses must be provided for additional responsibilities well performed.
4. **Tolerance of subordinate's mistakes:** The subordinates may not be as experienced as the managers in making objective judgments so that it is quite possible that they will make mistakes in the process. Unless these mistakes are serious in nature or occur repeatedly, management should not severely penalise subordinates but should encourage them to learn from their mistakes. They should be allowed to develop their own solutions and be given sufficient freedom in accomplishing delegated tasks.

- 5. Establishment of adequate controls:** If there are adequate check points and controls built in the system, such as weekly reports and so on, then managers will not be continuously spending time in checking the performance and progress of subordinates and their concerns about subordinates performing inadequately will be reduced.

**NOTES****Check Your Progress**

3. Mention one of the major problems with delegation of authority.
4. State any two steps that management can take to overcome the problems with delegation.

## 6.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Delegation is the downward transfer of formal authority from one person to another.
2. The first step in the process of delegation is to determine clearly what the subordinates are supposed to do.
3. One of the major problems with delegation of authority is that the central management is far removed from the actual operations where the decisions are made so that it becomes difficult to pinpoint major problems when they occur because decisions are made by any of the subordinates.
4. Management may take these two steps to overcome the problems with delegation:
  - Proper selection and training
  - Motivation of subordinates

## 6.5 SUMMARY

- Delegation is the downward transfer of formal authority from one person to another.
- Delegation of authority becomes necessary as the organization grows.
- Subordinates usually respond to delegated authority with a favourable attitude.
- Subordinates, when given control over the problems they face, are able to analyse the situation and make decisions accordingly.
- One of the major problems with delegation of authority is that the central management is far removed from the actual operations where the decisions

## NOTES

are made so that it becomes difficult to pinpoint major problems when they occur because decisions are made by any of the subordinates.

- Even though delegation of authority has some definite advantages and may be even necessary for optimal organizational operations, some managers are very reluctant to delegate authority and many subordinates avoid taking on the authority and the responsibility that goes with it.
- Many subordinates are reluctant to accept authority and make decisions for fear that they would be criticised or dismissed for making wrong decisions.
- Since delegation results in several organizational benefits, it becomes necessary for the management to remove any barriers to effective delegation.
- The subordinate must know precisely what he has to know and do.
- The subordinates may not be as experienced as the managers in making objective judgments so that it is quite possible that they will make mistakes in the process.

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### 6.6 KEY WORDS

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- **Supervision:** Supervision is the act or function of overseeing something or somebody.
- **Obligation:** An obligation is a course of action that someone is required to take, whether legal or moral.
- **Strategic planning:** Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy.

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### 6.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. What do you understand by the term 'delegation'?
2. What are the various advantages of delegation?
3. Mention some of the steps that management can take to overcome the problems with delegation.
4. Why delegation is necessary for an effective organization?

#### Long-Answer Question

1. Explain the process of delegation.
2. Discuss the problems with delegation.



3. Eugene Raudsepp has listed several reasons as to why managers are sometimes unwilling to delegate. Discuss these reasons.
4. Describe some of the personal factors as barriers to delegation.

*Delegation*

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## NOTES

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## UNIT 7 STAFFING

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### NOTES

#### Structure

- 7.0 Introduction
- 7.1 Objectives
- 7.2 Elements and Functions of Staffing
  - 7.2.1 General Principles and Importance of Staffing
- 7.3 Motivation: Meaning, Importance and Theories
  - 7.3.1 Types of Motivation
- 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

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### 7.0 INTRODUCTION

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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 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. In this unit, you will deal with the elements and functions of staffing. This unit will also explain the process of motivation and its various theories.

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### 7.1 OBJECTIVES

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

- Discuss the various methods of forecasting
- Describe the general principles of staffing
- Explain the process of motivation
- Identify the various theories of motivation

## 7.2 ELEMENTS AND FUNCTIONS OF STAFFING

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

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

### Characteristics of a sound personnel policy programme

- The policy statement should be clear and easily understood so that what it proposes to achieve is evident.
- 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.
- 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.
- 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.
- 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.
- 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.
- It must make a measurable impact on the process of recruitment, retention and retirement which can be evaluated and qualified.

### Forecasting

Human resource planning involves objective and systematic assessment of present staffing needs of an organization, identifying the available personnel to satisfy the

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current needs, forecasting the future demand and supply of employees, formulating staffing strategies with a view to both short range as well as long range strategic plans and continuously monitoring, evaluating and updating these needs and resources of supply.

In today's complex organizational structure, operating in highly involved and complex economic, political, socio-cultural and technical environment, the most suitable employees are becoming more and more crucial and indispensable assets for effective performance. As a result the price of poor staffing will be very high requiring improved manpower planning as an economic necessity.

### Forecasting Manpower Needs

Manpower forecasting is defined as 'the process of collecting and analysing information to determine the future supply of, and demand for, any given skill or job category.' The primary purpose for manpower forecasting is to prepare for employment, training and development and proper use of human resources. Forecasting has become very important due to complexity of organizations requiring more skilled personnel which are in short supply.

In addition to assessing the current situation relevant to personnel, in the organization, an effective human resource planning programme takes into consideration the future needs and trends in both job and personnel availability. This would require reliable forecasting of both demand and supply. The key to any forecasting procedure is to determine what causes things to happen the way they do. If we could know what determines the supply and demand for people, we can predict the needs, making the planning for changes in personnel easier.

### Methods of forecasting

The following are various methods of forecasting:

- **Opinion of expert forecasters:** The expert forecasters are those who are knowledgeable to estimate future human resource needs. These may be the personnel managers or the outside consultants who are asked to assess the future needs. These forecasts can be further sophisticated by using the 'Delphi Technique', where the experts are anonymously surveyed, their opinions refined, and these opinions sent back to experts for further evaluation. The process is repeated until a consensus is reached.
- **Trend projection forecasts:** The past trends in the employee needs can be projected into the future. One method used is known as extrapolation where, if the past trend is linear in nature, it can simply be extended into the future. For example, if in the past the company has been consistently growing, requiring on the average ten additional workers per month, then by extrapolation, our future needs will be 120 workers per year.

Another method of trend projection is known as 'Indexation'. This method relies upon matching employment growth with some index. For example,

the growth in the number of employees in the production area may be tied in with the volume of sales, so that for a certain increase in sales, there is a corresponding increase in the number of employees in production.

Both these methods of extrapolation and indexation are simple and appropriate. However, in long range human resources projection, more sophisticated statistical analysis techniques are available and employed, taking into consideration external, organizational and work force factors, which may not remain constant from time to time.

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### 7.2.1 General Principles and Importance of Staffing

The staffing function consists of the following sequential steps:

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

### Job Analysis

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

- **Work activities:** Exactly what is being done and achieved including processes and procedures used.
- **Job context:** This specifies the working conditions, including physical setting, supervision, work schedule, incentives and motivations, social environment of work place, job hazards or any other discomforts.
- **What equipment, tools or machines are used:** Is it dealing with plastics, metals etc.? Is it using milling machines, punch presses, etc.?

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- **Performance expected:** This may be the expected output in quantity or quality. The performance may also be measured in terms of error analysis, as to the percentage of errors (as in typing, for example), work standards, time required to complete each unit of the job, knowledge used or services performed.
- **Required personal attributes:** This refers to the educational background, skills, training, experience, physical strength coordination or dexterity, aptitude and any other attributes required for the job.
- **Job analysis:** It is the process for obtaining all pertinent facts about the job and is a basis for creating job description and job specification.

**Job Description**

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

- **Job identification:** It includes job title, code number of the job if any, the department or division to which the job belongs, etc.
- **Job summary:** It is a brief summary, in a sentence or two, explaining the contents of the job, its hazards or any other specific aspects.
- **Duties performed:** It is a comprehensive listing of the duties together with the importance of each duty and the percentage of time devoted to each major duty. Included are any other additional responsibilities like custody of money, and training of subordinates.
- **Supervision:** If supervision is required, then it gives the number of persons to be supervised along with their job titles and the extent of supervision involved and whether it is general supervision or close supervision.
- **Machines, tools and equipment used:** This includes the type of machinery handled and the type of raw materials used.
- **Working conditions:** It refers to the working environment in which the job holder must work. Any special working conditions in terms of cold, heat, noise levels, dust, fumes and any other hazards that might pose a risk to life and the probability of such a hazard occurring are listed.

**Job Specification**

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

degree or physical requirements such as height, weight, etc. These specifications relate to the following:

- **Physical characteristics:** These include general health, height, endurance level, vision, hearing, motor coordination, reflexes, etc.
- **Psychological characteristics:** These include mental dexterity, analytical ability, intuitive judgment, alertness and ability to concentrate.
- **Personal characteristics:** These include personal appearance, emotional stability, maturity, patience, aggressiveness, outgoing nature, poise, initiative and drive, leadership qualities, cooperative spirit, conversational abilities.
- **Responsibilities:** These include such responsibilities as supervision of others, and safety of others.
- **Other characteristics:** These may include age, sex, education, experience, training required, fluency in languages and other sensory demands such as sense of sight, smell or hearing.

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### Recruitment

After manpower needs have been determined, the next step in the staffing function is recruitment of candidates for the jobs to be filled. Recruitment is the process of attracting qualified personnel, matching them with specific and suitable jobs, and assigning them to these jobs. Its aim is to develop and maintain adequate manpower resources upon which an organization can depend, when it needs additional employees.

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

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

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

Some of the sources of external recruitment include the following: employment agencies, through advertesing, through colleges, labour unions, and so on.

### Selection

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

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the cost of training the candidates, the cost of mistakes made by them and the cost of replacement.

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

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

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

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

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

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



The *sixth step* is the in-depth interview which is conducted to evaluate the applicant's acceptability in terms of his ability to fit into the company's culture and his 'motives', in joining the company. An interview can be structured in which well designed questions are asked that are pertinent to the job and their answers analyzed, or it could be unstructured which is a free thought flowing two-way communication. In order to make the best of an interview, it is essential that both the candidate and the interviewer be fully prepared. The candidate must be poised and confident of himself. Good grooming, a choice of clothing, a firm handshake, the manner of sitting and general enthusiasm will give a good initial impression. It is also important for the candidate to know about the company as much as possible and be prepared to answer questions thoroughly and precisely.

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

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

#### Check Your Progress

1. What is staffing?
2. What is the primary purpose for manpower forecasting?
3. Define the term job specification.

### 7.3 MOTOVATION: MEANING, IMPORTANCE AND THEORIES

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

The concept of motivation has three basic characteristics. These are as follows:

- **Effort:** The amount of effort put into the activity identifies the strength of the person's work related behaviour. Hard work usually reflects high motivation. A student who works very hard to get top grades can be referred to as highly motivated. A professor who is engaged in research and publishes many high quality articles is exerting extensive effort relating to his job.

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- **Persistence:** Motivation is a permanent and an integral part of a human being. Its second characteristic is persistence in the efforts. Motivation is continuously goal directed so that once a goal is achieved, a higher goal is selected and efforts are exercised towards this higher goal. Accordingly, high motivation requires persistent efforts.
- **Direction:** Persistent hard work determines the quantity of effort while direction determines the quality of the anticipated output. All efforts are to be directed towards the organizational goal. This would ensure that the persistent effort is actually resulting into accepted organizational outcomes.

As an example, let us assume that a professor has established a goal for himself to get a promotion and monetary raise in order to improve upon his standard of living. Thus, the professor will shape his behaviour to achieve that goal. He will choose a course of action designed to obtain promotion. This course of action may comprise five published articles or one published book. He will be highly motivated and will put in persistent efforts in research and publish the desired number of articles or the book.

Once the promotion has been obtained, the professor will re-evaluate his achievement relative to his initially established objective. If the pay raise is not adequate and there are grounds for further promotion and pay raise, the professor will establish a higher goal and strive towards it. This example fits the basic motivational process as follows:

In the above example, if the motivator (publishing) does not serve the required purpose then the professor will look at other alternatives as motivators such as service to the college and community, student guidance and curriculum development and good interactive relations with peers and superiors. Thus, the motivation process involves the following steps.

1. *Analysis of situation:* The situation that needs motivational inducement must be sized up so as to ascertain the motivational needs. From organizational behaviour point of view, it must be recognized that since the needs of different employees differ both in nature as well as intensity, a composite view of the collective needs of the group is established with appropriate recognition of differences in individual needs.
2. *Selecting and applying appropriate motivators:* A list of all devices of motivation is drawn and a selection made of such motivators that motivate different types of people under different circumstances. Proper timing and the extent of motivation is also to be considered. The individual goals should be given adequate attention within the framework of group goals and the organizational goals.
3. *Follow-up:* It is important to know that the motivators selected are indeed providing the desired motivation. This can be accomplished by getting and

evaluating the feedback. If these motivators are not showing the optimum effect, then alternative motivators should be selected and applied.

Staffing

### Sources of Motivation

Experts in the organizational behaviour field have a divided opinion as to whether workers are motivated by factors in the external environment such as rewards or fear or whether motivation is self generated without the application of external factors. It is quite well understood that under the same set of external factors, all workers are not equally motivated. Some of these motivational sources are as follows:

- **Positive motivation:** Positive motivation involves proper recognition of employee efforts and appreciation of employee contribution towards the organizational goal achievement. Such motivations improve the standards of performance, lead to good team spirit and pride, a sense of cooperation and a feeling of belonging and happiness. Some of the positive motivators are as follows:
  - o Praise and credit for work done.
  - o A sincere interest in the welfare of subordinates.
  - o Delegation of authority and responsibility to subordinates.
  - o Participation of subordinates in the decision-making process.
- **Negative or fear motivation:** This motivation is based upon the use of force, power, fear and threats. The fear of punishment or unfavourable consequences affects the behavioural changes. Some examples of negative motivation include the fear of failing in the examination, and fear of being fired or demoted. Fear of failure in the examination induces motivation in many students to work harder and pass the course. Similarly, fear of being fired keeps the workers in line with the organizational rules and regulations as well as do a satisfactory job.
- **Extrinsic motivation:** This type of motivation is induced by external factors that are primarily financial in nature. It is based upon the assumption that the behaviour that results in positive rewards tends to be repeated. However, the reward for the desired behaviour should be sufficiently powerful and durable so that it improves the probability of occurrence of desirable behaviour. Money is probably the most important incentive for positive behaviour since money can be used for a number of other resources.
- **Intrinsic motivation:** Intrinsic motivation stems from feelings of achievement and accomplishment and is concerned with the state of self-actualization in which the satisfaction of accomplishing something worthwhile motivates the employee further so that this motivation is self-generated and is independent of financial rewards. For example, there are many retired doctors who work free in the hospital because it gives them a sense of

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accomplishment and satisfaction. Mother Teresa's work in the slums of Kolkata (India) not only motivated the people who worked with her but also many others who simply heard about her work and then wanted to join the team. Similarly, Peace Corps workers work in uncomfortable environments at a minimal pay. Some of the intrinsic motivators are praise, recognition, responsibility, esteem, power, status, challenges and decision-making responsibility.

**Theories of Motivation**

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

**The Content Theories 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 type of behaviour. The basic idea underlying such theories is that people have certain fundamental needs, both physiological and psychological in nature, and that they are motivated to engage in activities that would satisfy these needs. Thus the nature of needs establishes the nature of motivation that results in a specific behaviour aimed at reaching the goal of satisfying such needs.

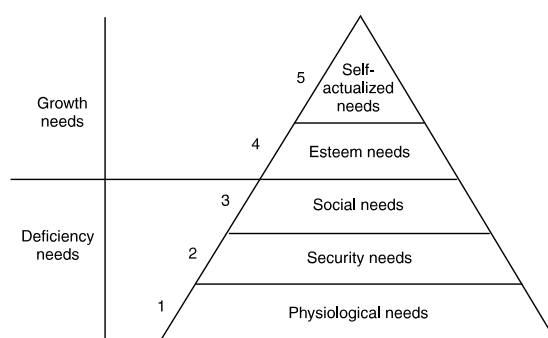
**Maslow's Need Hierarchy**

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

total attention will be focused upon these needs and it will not be possible to communicate with them about other matters.

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

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**Fig. 7.1** Maslow's Hierarchy of Needs

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

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

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

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

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

When the third level needs of love and affiliation become motivators, then people find an opportunity in their work environment for establishing friendly interpersonal relationships. The management can satisfy these needs by:

- Providing opportunities for employees to interact socially with each other through coffee breaks, lunch facilities and recreational activities such as organized sports programmes, company picnics and other social get-togethers.
- Creating team spirit by keeping work groups informal wherever possible with friendly and supportive supervision.
- Conducting periodic meetings with all subordinates to discuss matters pertaining to personal achievements and contributions as well as organizational developments.

The fourth level needs of self-esteem involve a feeling of satisfaction and achievement and recognition for such achievement. The management can take the following steps to satisfy these needs:

- Design more challenging tasks and provide positive feedback on performance of employees.
- Give recognition and encouragement for performance and contribution and delegate additional authority to subordinates.
- Involve subordinates in goal setting and decision-making processes.
- Provide adequate training and executive development programmes to help employees successfully accomplish their goals and increase their competency on their jobs.
- Provide some of the symbols for status and respect, such as executive level job title, private secretary, privileged parking, promotion, company car, stock options and write-ups about achievements in the company newsletters.

The fifth and top-level needs of self-actualization demand growth and creativity and the management can take the following steps to satisfy these needs.

- The employees should be given an opportunity to shape their own jobs.

- Give employees the freedom of expression. This will open the channels of communications further and give the employees an opportunity to get involved.
- Encourage and develop creativity among employees. Creativity is tied in with freedom of expression and freedom of movement.

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

### **Herzberg's Two-Factor Theory**

Fredrick Herzberg and his associates developed the two-factor theory in the late 1950s and early 1960s. As part of a study of job satisfaction, Herzberg and his colleagues conducted in-depth interviews with over 200 engineers and accountants in the Pittsburgh area. The researchers felt that a person's relation to his work is a basic one and that his attitude towards work would determine his organization related behaviour. The respondents were required to describe in detail the type of environment in which they felt exceptionally good about their jobs and the type of environment in which they felt bad about their jobs. It seems natural to believe that people who are generally satisfied with their jobs will be more dedicated to their work and perform it well as compared to those people who are dissatisfied with their jobs. If the logic seems justified, then it would be useful to isolate those factors and conditions that produce satisfaction with the job and those factors that produce dissatisfaction.

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

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

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

### **Hygiene Factors**

Hygiene factors do not motivate people. They simply prevent dissatisfaction and maintain status quo. They produce no growth but prevent loss. The absence of these factors leads to job dissatisfaction. The elimination of dissatisfaction does not mean satisfaction and these factors simply maintain a 'zero level of motivation'.

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For example, if a person indicated 'low pay as a cause of dissatisfaction, it would not necessarily identify 'high pay' as a cause of satisfaction.

Some of the hygiene factors are as follows:

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

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

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

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

## Motivational Factors

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

- **The job itself:** To be motivated, people must like and enjoy their jobs. They become highly committed to goal achievement and do not mind working till late hours in order to do what is to be done. Their morale is high as evidenced by lack of absenteeism and tardiness.
- **Recognition:** Proper recognition of an employee's contribution by the management is highly morale boosting. It gives the workers a feeling of worth and self esteem. It is human nature to be happy when appreciated. Thus such recognition is highly motivational.
- **Achievement:** A goal achievement gives a great feeling of accomplishment. The goal must be challenging, requiring initiative and creativity. An assembly



line worker finishing his routine work hardly gets the feeling of achievement. The opportunities must exist for meaningful achievement, otherwise workers become sensitized to the environment and begin to find faults with it.

- **Responsibility:** It is an obligation on the part of the employee to carry out the assigned duties satisfactorily. The higher the level of these duties, the more responsible the worker would feel and more motivated he would be. It is a good feeling to know that you are considered a person of integrity and intelligence to be given a higher responsibility. It is a motivational factor that helps growth.
- **Growth and advancement:** These factors are all interrelated and are positively related to motivation. Job promotions, higher responsibility, participation in central decision-making and executive benefits are all signs of growth and advancement and add to dedication and commitment of employees.

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

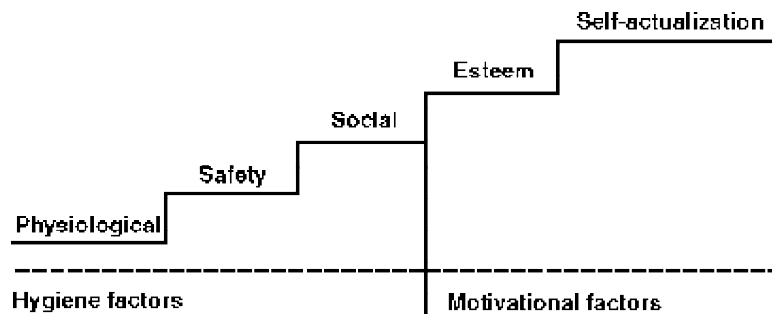


Fig. 7.2 Herzberg's Two-Factor Model

## ERG Theory

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

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

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- **Relatedness needs:** Relatedness needs roughly correspond to social and esteem needs in Maslow's hierarchy. These needs are satisfied by personal relationships and social interaction with others. It involves open communication and honest exchange of thoughts and feelings with other organizational members.
- **Growth needs:** These are the needs to develop and grow and reach the full potential that a person is capable of reaching. They are similar to Maslow's self-actualization needs. These needs are fulfilled by strong personal involvement in the organizational environment and by accepting new opportunities and challenges.

A rough similarity between ERG theory and Maslow's theory is as follows:

ERG theory differs from Maslow's theory in proposing that people may be motivated by more than one kind of need at the same time. While Maslow proposes that in the hierarchy of needs, a person will satisfy the lower level needs before he moves up to the next level of needs and will stay at these needs until they are satisfied, ERG theory suggests that if a person is frustrated in satisfying his needs at a given level, he will move back to the lower level needs. For example, assume that a manager's existence needs are fully satisfied and he looks for more challenging tasks to satisfy his self-esteem needs. If his efforts are frustrated in meeting these challenges, he will move back to existence needs and may ask for more material benefits.

### Vroom's Expectancy Model

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

There are three important elements in the model. These are as follows:

- **Expectancy:** This is a person's perception of the likelihood that a particular outcome will result from a particular behaviour or action. This likelihood is probabilistic in nature and describes the relationship between an act and its outcome. For example, if a student works hard during the semester, he will expect to do well in the final examination. It is not 100 per cent definite that he will indeed do well in the examination. There is some probability attached to this outcome. Similarly, if a person works hard, he may expect to perform better and increase productivity. For example, a worker works hard and is absolutely certain (expectancy = 1.0) that he can produce an average of 15 units a day and 60 per cent certain (expectancy = 0.6) that he can produce a high of 20 units per day. This expectation of outcome is known as 'first level' outcome.

- **Instrumentality:** This factor relates to a person's belief and expectation that his performance will lead to a particular desired reward. It is the degree of association of first level outcome of a particular effort to the second level outcome—that is the ultimate reward. For example, working hard may lead to better performance—which is the first level outcome, and it may result in a reward such as salary increase or promotion or both—which is the second level outcome. If a person believes that his high performance will not be recognized or lead to expected and desired rewards, he will not be motivated to work hard for better output. Similarly, a professor may work hard to improve upon his techniques of teaching and communication (first level outcome) in order to get promotion and tenure (second level outcome). Accordingly, instrumentality is the performance-reward relationship.
- **Valence:** Valence is the value a person assigns to his desired reward. He may not be willing to work hard to improve performance if the reward for such improved performance is not what he desires. It is not the actual value of the reward but the perceptual value of the reward in the mind of the worker that is important. A person may be motivated to work hard not to get a pay raise but to get recognition and status. Another person may be more interested in job security than status.

The management must recognize and determine the situation as it exists and take steps to improve upon these three factors of expectancy, instrumentality and valence for the purpose of behavioural modification so that these three elements achieve the highest value individually. For example, if a worker exhibits a poorly motivated behaviour, it could be due to:

- **Low effort-performance expectancy:** The worker may lack the necessary skills and training in order to improve the relationship between effort and performance.
- **Low performance-reward instrumentality relationship:** The worker may believe that similar performance does not lead to similar rewards. The reward policy may be inconsistent and may depend upon factors other than simply the performance that the worker may be aware of or may not consider fair. For example, a professor may do research and have professional articles published in order to get a promotion and may find out later that more weight was given to community service rather than research at the time of promotion. Accordingly, the performance appraisal methods and the associated performance rewards may not be equitable. Management must re-evaluate the appraisal techniques and formulate policies that strengthen performance reward relationship in a consistent, fair and equitable manner.
- **Low reward-valence relationship:** Since the managers may look at the value of a reward differently than the worker, the management must investigate the desirability of the rewards that are given on the basis of performance. While monetary benefits may be more desirable for some

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workers, the need to be formally appreciated may be a more valuable reward for others for similar task oriented activities. Vroom's model tries to explain as to what factors affect a person's choice of a particular course of action among all available alternatives and why a person would be better motivated towards achievement of certain goals as compared to some other goals. Accordingly, managers must understand and analyze the preferences of particular subordinates in order to design 'individualized motivational packages' to meet their needs, keeping in mind that all such packages should be perceived as generally fair by all concerned parties.

**McGregor's Theory X and Theory Y**

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

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

This approach was based on the following assumptions.

**Theory X Assumptions**

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

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

### **7.3.1 Types of Motivation**

Motivation has been observed in different forms and types, depending upon various environments, opportunities, goals, abilities and many other factors. These motivational factors are mainly divided into primary motivation and secondary motivation.

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**(a) Primary Motivation**

Many motivation drives and motives are unknown to the individual, although they exist in them and motivate them indirectly. Since these drives and motives are physically attached to people, they are known as primary motivations. They are biological, and the word primary does not mean that these motives take precedence over other motives. Primary motivation are basically related to human needs for psychological satisfaction. Primary motivation are unlearned and natural, relating to physiological needs. Primary motivation may be of a general type which are naturally felt by the individual. They are competence motives, curiosity and affection. These primary motivational drives use manipulation and activity to achieve satisfaction. Satisfaction here means the fulfilment of basic human needs.

**Competence motives:** Natural motivation depends on several unknown factors such as competence, curiosity, etc. Many authors have tried to explore competence and other factors to find their impacts on primary motivation. For example, human and other organisms have the capacity to interact with the situation. They have the capacity, very well known as competence, to understand the situation, its exploration, manipulation and different functions. The capacity to interact with the environment has been termed competence motives by Robert W. White, who explained that competence motives receive substantial contributions from activities. They direct, select and persist with the environment. Competence to act, interact and counteract with the environment is the basic foundation of primary motivation. People try to have control over the environment or behave sensitively within the given environment. The competence motives vary with age, sex and education. Competence drives help children to learn many things automatically, e.g. riding a cycle, crossing a road, the reading habit, learning the mother's language, culture and so on. These basic factors or natural competence are explored, developed and sustained by children and are preserved in them till old age. The intensity of a child's competence motive shapes his adulthood motivation drives. Based on these competence motives, some employees prefer rough and tough jobs, others like to work on sophisticated machines while yet others feel happy with table work. While designing jobs and assigning them, competence motives are deeply considered to make the employees highly motivated to achieve their goals.

**Curiosity motives:** Primary motives have unlearned drives to explore and manipulate objectives. Curiosity is one of them, which inspires people to adopt a significant activity. Without curiosity, one cannot desire to learn and direct his activities. Many times, students express their curiosity to perform a particular function. Due to curiosity, they learn many new schemes. Employees are motivated, because they have a curiosity about development. In the absence of curiosity, employees become dormant and sleepy and will not take interest in organisational activities.

**Affection motives:** Primary motivation includes affection motives. Love and affection are part of human enjoyment, which are aimed at by the employees. People work because they want to support their families. If their family needs are

fulfilled, they are inspired to work hard. Love and affection have become prime movers of people's activities.

**Human needs:** The primary motivation includes satisfying human needs. People work for satisfying individual and family needs of hunger, clothing, housing, education, etc. The present and future needs, need to be satisfied by working people. No one would like to work if the basic needs are not satisfied. Social and psychological needs are part of secondary motivation. Primary needs such as the need for food, water, air, comfort, shelter and safety are the prime motivation needs. These human needs are to be satisfied or for making individuals active.

### **(b) Secondary Motivation**

Secondary motivation is learned whereas primary drives are unlearned and are as natural as feelings of thirst, hunger, etc. Secondary motives are learned and realised as a result of development. As human beings develop and learn many new ways of satisfaction and comfort, secondary motives crop up, which prevail in a cultured and educated society. Secondary motives do not remain secondary in a developed organisation, rather they become essential for moving the activities of educated people. They become prime movers of developed people, because it is natural to feel these needs. Many authors have emphasised the separation of secondary motivation from primary motivation to retain the identity of each. Secondary motives are always learned. They are achievement motivation, affiliation motivation and power motivation.

**Achievement motivation:** People are achievement oriented. A perception test has revealed that many employees work for achievement of satisfaction while working in an organisation and getting satisfaction thereof. Knowledge and learning have become helpful for developing achievement motivation. Many psychological tests have revealed the levels of achievement motivation. McClelland has devised techniques to measure Need for Achievement (NAch). He has revealed the qualities of high and low achievers. High achievers are not necessarily risk takers. They are cautious and careful persons. They are moderators. People believing in high achievement need immediate feedback. They find achievement an intrinsic satisfier. The material rewards and other results are not important to high achievers. They believe in work only and care little about the results and rewards. They are preoccupied with their work until the work is completed. They do not leave any work unfinished. However, high achievers are divided and live alone. They like peace and solitude. They are realistic, aim for excellence and show good behaviour.

Low achievement oriented people do not bother about goals. They like to work for rewards and results and not for individual job satisfaction. They are pessimistic. They do not like subordinates to enjoy the fruits of achievement. They do not care about people and production. High achievers on the other hand are an asset to the organisation as they feel personally responsible for action and results.

**Affiliation motivation:** Affiliation motivation is related to social motives. People like to be recognised by the society. Employees feel happy when they are

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complimented for services rendered. They get inner satisfaction while being in the company of friends and a large number of people. They like freedom to mix with other colleagues. If an employee is associated with some social organisation, he is liked by his friends. Thus affiliation motives help people develop. Persons having affiliation attitudes are in a better position to manage their employees. The employees also enjoy working with an affiliation oriented manager, because the latter easily assigns tasks. He gets an opportunity to monitor work and direct work activities. Affiliation motives are useful for group dynamics.

**Power motivation:** Many people desire power in order to influence others. Power- oriented people are also management-oriented. Institutional power is better than individual power, because the former is used to influence the behaviour of employees to make them more productive. Qualified people prefer to seek power through legitimate means. They want leadership through successful performances.

#### Check Your Progress

4. What are the three basic characteristics of motivation?
5. What do you understand by positive motivation?

### 7.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. 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.
2. The primary purpose for manpower forecasting is to prepare for employment, training and development and proper use of human resources.
3. Job specification cites personality requirements and lists qualifications both physical and mental, necessary to perform the job properly. It is used to inform the prospective employees about minimum acceptable qualities required to get the job and perform it well.
4. The concept of motivation has three basic characteristics. These are as follows:
  - Effort
  - Persistence
  - Direction
5. Positive motivation involves proper recognition of employee efforts and appreciation of employee contribution towards the organizational goal achievement.



## 7.5 SUMMARY

- Staffing is the traditional management function of attraction and selection of the best people and putting them on jobs where their talents and skills can be best utilized, and retention of these people through incentives, job training and job enrichment programmes, in order to achieve both individual and organizational objectives.
- The 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.'
- Manpower forecasting is defined as 'the process of collecting and analysing information to determine the future supply of, and demand for, any given skill or job category.'
- Job analysis is an orderly study of job requirements and involves systematic investigation relating to the operations and responsibilities including knowledge, skills and abilities required for the successful performance of a job.
- Job description is a systematic, organized and written statement of 'who does what, when, where, how and why,' and is a tangible outcome of job analysis.
- Job specification cites personality requirements and lists qualifications both physical and mental, necessary to perform the job properly
- Recruitment is the process of attracting qualified personnel, matching them with specific and suitable jobs, and assigning them to these jobs.
- Selection is a process of choosing the right candidate from a pool of applicants. This process is established to achieve a good match between the job requirements and the candidate's skills and motives.
- Motivation is a permanent and an integral part of a human being. Its second characteristic is persistence in the efforts.
- Positive motivation involves proper recognition of employee efforts and appreciation of employee contribution towards the organizational goal achievement.
- Intrinsic motivation stems from feelings of achievement and accomplishment and is concerned with the state of self-actualization in which the satisfaction of accomplishing something worthwhile motivates the employee further so that this motivation is self-generated and is independent of financial rewards.
- Maslow's 'needs hierarchy theory' is probably the most widely used theory of motivation in organizations.

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- Abraham Maslow suggested that people have a complex set of exceptionally strong needs and the behaviour of individuals at a particular moment is usually determined by their strongest need.
- The physiological needs form the foundation of the hierarchy and tend to have the highest strength in terms of motivation.

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## 7.6 KEY WORDS

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- **Manpower forecasting:** Manpower forecasting is defined as the process of collecting and analysing information to determine the future supply of, and demand for, any given skill or job category.
- **Job analysis:** Job analysis is an orderly study of job requirements and involves systematic investigation relating to the operations and responsibilities including knowledge, skills and abilities required for the successful performance of a job.
- **Job description:** Job description is a systematic, organized and written statement of 'who does what, when, where, how and why,' and is a tangible outcome of job analysis.
- **Recruitment:** Recruitment is the process of attracting qualified personnel, matching them with specific and suitable jobs, and assigning them to these jobs.
- **Selection:** Selection is a process of choosing the right candidate from a pool of applicants.

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## 7.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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### Short-Answer Questions

1. What are the factors to be considered for forecasting demand?
2. Define the importance of staffing.
3. Write a short note on recruitment.
4. Mention the major sources of motivation.
5. Differentiate between positive motivation and negative motivation.

### Long-Answer Question

1. Discuss the various methods of forecasting.
2. Describe the general principles of staffing.
3. Explain the process of motivation.

4. Describe Maslow's 'Needs Hierarchy Theory'.
5. Write a detail note on McGregor's Theory X and Theory Y.

*Staffing*

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## 7.8 FURTHER READINGS

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## UNIT 8 COMMUNICATION

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### NOTES

#### Structure

- 8.0 Introduction
- 8.1 Objectives
- 8.2 Communication: Types and Processes
  - 8.2.1 Means of communication
  - 8.2.2 Barriers to Effective Communication
  - 8.2.3 Overcoming Communication Barriers
- 8.3 Leadership: Meaning and Styles
- 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 the concepts like staffing and motivation. 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. Positive motivation involves proper recognition of employee efforts and appreciation of employee contribution towards the organizational goal achievement.

In this unit, you will learn about the various types and processes of communication. You will also discuss the concept of leadership.

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### 8.1 OBJECTIVES

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

- Define the various types and processes of communication
- Describe the communication network
- Discuss some of the organizational barriers to effective communication
- Explain the term 'leadership'

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### 8.2 COMMUNICATION: TYPES AND PROCESSES

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As we have previously discussed, management depends upon communication to achieve organizational objectives. Since managers work with and through other

people, all their acts, policies, rules, orders and procedures must pass through some kind of communication channel. Also there must be a channel of communication for feedback. Accordingly, some of the purposes of communication are as follows:

- To develop information and understanding among all workers and this is necessary for group effort.
- To foster any attitude that is necessary for motivation, cooperation and job satisfaction.
- To discourage the spread of misinformation, ambiguity and rumours that can cause conflict and tension.
- To prepare workers for a change in methods of environment by giving them necessary information in advance.
- To encourage subordinates to supply ideas and suggestions for improving upon the product or work environment and taking these suggestions seriously.
- To improve labour–management relations by keeping the communication channels open and accessible.
- To encourage social relations among workers by encouraging inter-communication. This would satisfy the basic human need for a sense of belonging and friendship.

### Communication Process Model

A simple communication model that reflects communication as a dynamic interactive process has been proposed by David Berlov.

Before communication can take place, an idea or a purpose in the form of a message or information is needed for the purpose of conveying it to the intended receiver of such a message. The message is converted into a symbolic form and passed along some channel to the receiver who translates the message into a meaning. Thus, the transference of meaning has taken place from one person to another.

The communication model, described as a series of steps consists of the following components.

**Source:** This is the source of information or the initiator of communication. This source or message sender may want to communicate his ideas, needs, intentions or other pieces of information.

**Encoding:** Encoding is the process inside the human mind or brain in the form of motor skills, muscle system or sensory skills that encode the ideas to be conveyed into a series of symbols or gestures or some other format of expression.

**The message:** The message is the physical form of the thought that can be experienced and understood by one or more senses of the receiver. It could be in such forms that require either hearing, reading or other forms of physical gestures.

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**Channel of communication:** It is a vehicle used in the transmission of the message. It is a medium carrier that bridges the gap between the sender and the receiver. It may be a face-to-face conversation, a telephone conversation, in written form or through any other form of physical gestures.

**Reception of the message:** The message is received by the person for whom it was meant and he becomes the receiver of the message.

**Decoding process:** Decoding is done in the same manner as encoding by motor skills, muscle system and sensory skills, and the receiver decodes the message for the purpose of interpreting and understanding the meaning of the message. The more the sender's intended message matches the receiver's understanding, the more effective the communication is.

**Action:** This is the response from the receiver who has received and accepted the communication. This may involve compliance with an instruction and acting upon it, or simply filing of the message for future references.

**Feedback:** A feedback determines whether the message was clearly understood and the required action taken. The feedback to the sender completes the process of communication.

### 8.2.1 Means of Communication

There are three primary methods of communicating in organizations. These are written, oral and non-verbal. Very often some of these methods are combined to increase the emphasis or clarity of information. The choice of the method would depend upon such factors as physical presence of the receiver of the message, the nature of the message as to whether it is urgent or secret and the costs involved in the transmission of the message. These various means of communication are explained as follows:

#### Oral Communication

The most prevalent form of organizational communication is oral. It is also known as face-to-face communication and may be in the form of direct talk and conversation between the speakers and the listeners when they are physically present at one place or through telephone or intercom system conversation. Where one-way communication is required, the oral communication may include a public address system. Informal rumour mill or grapevine are also popular forms of oral communication. It is most effective for leaders to address the followers via public address system or audio-visual media.

Oral communication is particularly powerful because the receiver not only hears the content of the message but also observes the physical gestures associated with it as well as changes in tone, pitch, speed and volume of the spoken word. The human voice can impart the message much more forcefully and effectively than the written words and is an effective way of changing attitudes, beliefs and feelings, since faith, trust and sincerity can be much better judged in a face-to-face conversation rather than in written words.

### Advantages of Oral Communication

1. It is direct, simple, time-saving and the least expensive form of communication.
2. It allows for feedback and spontaneous thinking, so that if the receiver is unsure of the message, rapid feedback allows for early detection so that corrections can be immediately made, if necessary.
3. Because the message is conveyed instantaneously, it helps in avoiding delays, red tape and other formalities.
4. It conveys a personal warmth and friendliness and develops a sense of belonging because of these personalised contacts.

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### Disadvantages of Oral Communication

1. There is no formal record of communication so that any misunderstood message cannot be referred back to what was actually said.
2. If the verbal message is passed on along the hierarchical chain of command then some distortions can occur during the process. The more people the message must pass through, the greater the potential of distortion.
3. Lengthy and distant communication cannot be effectively conveyed verbally.
4. The receiver may receive the message in his own perception and thus misunderstand the intent of the message.
5. Spontaneous responses may not be carefully thought about.
6. The spirit of authority cannot be transmitted effectively in verbal transactions.
7. More or less or a different meaning might be conveyed by manner of speaking, tone of voice and facial expressions.

### Written Communication

A written communication is put in writing and is generally in the form of instructions, letters, memos, formal reports, rules and regulations, policy manuals, information bulletins and so on. These areas have to be covered in writing for efficient functioning of the organization. It is most effective when it is required to communicate information that requires action in the future and also in situations where communication is that of general informational nature. It also ensures that everyone has the same information.

### Advantages of Written Communication

1. It serves as evidence of events and proceedings.
2. It provides a permanency of record for future references. The message can be stored for an indefinite period of time. If some questions arise concerning the content of the message, particularly when the message is lengthy and complex, it is physically available for later reference.

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3. It reduces the likelihood of misunderstanding and misinterpretation. This is because, generally, people are more careful with the written word than with the spoken word. Thus, the written communication is more likely to be well-considered, logical and clear. And the message can be checked for accuracy before it is transmitted.
4. It can save time when many people must be contacted at the same time.
5. It is more reliable for transmitting lengthy statistical data.
6. It appears formal and authoritative for action.

### **Disadvantages of Written Communication**

1. It can be very time consuming, especially for lengthy reports.
2. There is no immediate feedback to be sure that the receiver has understood the message.
3. Confidential written material may leak out before time, causing disruption in its effectiveness.
4. It leads to excessive formality in personal relations.

### **Non-verbal Communication**

Some of the meaningful communication is conveyed through non-verbal ways. Even some of the verbal messages are strengthened or diluted by nonverbal expressions. These non-verbal expressions include facial expressions and physical movement. In addition, some of the environmental elements such as building and office space can convey a message about the authority of the person. According to Tipkins and McCarter, facial expressions can be categorised as (1) interest–excitement, (2) enjoyment–joy, (3) surprise–startle, (4) distress–anguish, (5) fear–terror, (6) shame–humiliation, (7) contempt–disgust, and (8) anger–rage.

Physical movements or body language is known as ‘kinesics’. A handshake is probably the most common form of body language and tells a lot about a person’s disposition. Similarly, eyes are the most expressive component of the facial display. A glance, a stare, a smile or a provocative movement are all various forms of communication. Other examples of body language are tilting of head, folding of arms or sitting position in a chair.

Our facial expressions can show anger, frustration, arrogance, shyness, fear and other characteristics that can never be adequately communicated through the written word or through oral communication. Some of the other body language symptoms are shrugging of shoulders for indifference, winking for mischief or intimacy, tapping our fingers on the table for impatience and slapping our forehead for forgetfulness.

As far as environmental elements are concerned, a large office with plush carpeting and expensive furniture conveys a message of status, power and prestige such as that of a Chief Operating Officer. On the other hand, a small metal desk



on a corner communicates the status of a low ranking officer in the organizational setting. Accordingly, nonverbal actions have considerable impact on the quality of communication.

*Communication*

### **Communication Networks**

A communication network is simply a diagram showing communication patterns or relationships that are possible within a group or among individuals. The structure of the group itself will determine the ease with which members can transmit information.

### **Downward, Upward and Horizontal Communication**

One of the basic foundations of the organizational operations is the communication between superiors and subordinates in the hierarchical system. Traditionally, the dominant theme in this type of organizational communication has been the 'downward' communication as far as the operational instructions and directions are concerned and 'upward' communication as far as operational reports and other feedback to management is concerned.

The downward communication is from the superior to the subordinate or from the top management to workers through the various hierarchical communications centres in between and may include such standard managerial tools as statement of the organizational philosophy and organizational objectives, standard operating procedures, standard quality control procedures, safety regulations and other relevant material. Downward channels are used to give employees work instructions and other information needed to exercise the delegated authority. In order for this communication to be effective, the workers should not only be told what to do but also why they are doing it and why their work is important to the organization. This increases a feeling of acceptance on the part of workers. It is also important that the communication be transmitted to workers in the language that they can understand. For example, a machine operator may not understand much about organizational philosophy or any specialized terminology about strategic planning or technological dynamics. The workers must be communicated in their own words and perceptions. Also most workers are conditioned to accept communication from their immediate superiors and hence the message must be filtered down through normal channels and edited on the way down for the sole purpose of simplification wherever necessary without losing the content or intent of the message. It is important however, that there is no communication breakdown at any level or from any source. This breakdown may occur due to the failure of the message to get through, failure to deliver the message at the proper time or improper coding of the message. The message must be coded in the language of the receiver rather than in the language of the sender.

'Upward' communication moves in the opposite direction and is based upon the communication demand system designed by management to receive information from operational levels. This information may consist of standard reporting items

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such as production reports. The top management that is always concerned with improvements and higher productivity or that wants to know the reactions of employees to certain productivity or that wants to know the reactions of employees to certain policy or procedure changes and the effectiveness of the operational instructions issued will be isolated if there is no or poor upward communication. According to Esther R. Becker, upward communication provides a clear channel for funnelling information, opinions and attitudes up through the organization. The organization must provide a climate and an incentive system which is necessary to encourage such upward communication. This climate can be generated by an 'open door' policy where the workers know that their superiors are always available for discussion of problems and concerns. This system must ensure that the superiors have developed listening skills as well as a sincere and sympathetic attitude towards the worker's problems. This opportunity for upward communication encourages employees to contribute valuable ideas for improving organizational efficiency. The participative decision techniques can develop a great deal of upward communication by either informally involving subordinates or formally allowing their participation. Thus the upward informational feedback can be gainfully utilized in decision centres to assess the results of organizational performance and to make necessary adjustments to attain organizational objectives.

In addition to upward and downward communication, there is also 'horizontal' or 'lateral' communication among equals. This is more informal in nature and is necessary in promoting a supportive organizational climate. For example, supervisors at the same level but from different departments, having lunch or coffee together can discuss and organize their activities in such a manner that they complement each other and the process is beneficial to the company as a whole. It provides a means by which managers at the same level of organization coordinate their activities without referring all the matters to their superiors. This type of communication is particularly frequent between the line and the staff units. Production and marketing managers communicate with each other often.

### 8.2.2 Barriers to Effective Communication

The communication must be interpreted and understood in the same manner as it was meant to be by the sender, otherwise it will not achieve the desired result and a communication breakdown will occur. There are external roadblocks to effective communication such as poor timing of communication, poor choice of channel of communication, incomplete, inadequate or unclear information, and network breakdown that can affect the proper reception of the communication. In addition, a person may interpret the communication not in the same manner as it was intended by the sender but in a way in which he wants to receive, depending upon the stimuli present, emotions or prejudices for or against a concept or ideology or personal conflicts so that instead of interpreting the content of the communication, the intent of the sender may be interpreted. According to Rogers and Roethlisberger, the communication effectiveness is always influenced by 'our very natural tendency

to judge, to evaluate, to approve or disapprove the statement of the other person or other group.' This evaluation tendency may alter the meaning of the entire communication. Accordingly, the management should not only attempt to eliminate all external barriers so that the communication is clear and to the point, but also try to understand the perceptions and attitudes of the receiver. Only then can the communication have its maximum effect.

Some of the organizational barriers and some of the interpersonal barriers to effective communication are discussed as follows.

### Noise Barriers

Noise is any external factor that interferes with the effectiveness of communication. The term is derived from noise or static effects in telephone conversation or radio wave transmission. It may cause interference in the process of communication by distraction or by blocking a part of the message or by diluting the strength of the communication. Some of the sources contributing towards noise factor are as follows:

- **Poor timing:** The manager must know when to communicate. A message that requires action in the distant future may be forgotten by the time action is to be taken. Similarly, a last minute communication with a deadline may put too much pressure on the receiver and may result in resentment. A message must be sent at an appropriate time to avoid these problems.
- **Inappropriate channel:** Poor choice of channel of communication can also contribute towards the misunderstanding of the message. The manager must decide whether the communication would be most effective if it is in writing or by a telephone call or a face-to-face conversation or a combination of these modes. If the communication has been initiated through a telephone call, then it may be necessary to confirm the message of the call by putting it in writing. The face-to-face communication emphasizes the strength of the message because it is supported by nonverbal gestures such as eye contact, hand gestures, facial expressions, and tone of voice.
- **Improper or inadequate information:** The information must be meaningful to the employee. It must be precise and to the point. Too little or too much information endangers effective communication. Ambiguity or use of words that can lead to different interpretations should be avoided.
- **Physical distractions:** The manager must recognize that in the case of face-to-face communication, any distractions can interfere with the process. Telephone interruptions, walk-in visitors or attending to other matters can interfere with the effective communication process. These external disturbances must be avoided.
- **Organizational structure:** The organizational structure should be such that the chain of command and channels of communication are clearly

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established and the responsibility and authority are clearly assigned and are traceable. Communication may be blocked, chaotic or distorted if the channels are not clear or if the passages are blocked or if there are bottlenecks or dead ends.

- **Information overload:** As dynamic changes are continuously occurring in our life, in our society and in our organizations, they create a mass of information to be processed for effective decision making. Overload occurs when individuals receive more information than they are capable of processing. The result could be confusion or some important information may be laid aside for the purpose of convenience.
- **Network breakdown:** The Network breakdown may be intentional or due to information overload and time pressures under which a communication has to be acted upon. Some factors contributing to such disruptions are as follows:
  - o Important negative information may be withheld by the managers.
  - o The secretary may forget to forward a memo.
  - o There may be professional jealousy resulting in closed channels.

### Interpersonal Barriers

There are many interpersonal barriers that disrupt the effectiveness of the communication process and generally involve such characteristics of either the sender or the receiver that cause communication problems. Some of these are as follows:

- **Filtering:** Filtering refers to intentionally withholding or deliberately manipulating with the information by the sender, either because the sender believes that the receiver does not need all the information or that the receiver is better off not knowing all aspects of a given situation. It could also be that the receiver is simply told what he wants to hear.

The extent of filtering may also depend upon the number of levels in the organizational structure. The more vertical levels there are, the more likely the filtering.

- **Semantic barriers:** These barriers occur due to differences in individual interpretations of words and symbols. The words and paragraphs must be interpreted with the same meaning as was intended. The choice of a wrong word or a comma at a wrong place in a sentence can sometimes alter the meaning of the intended message. Many times, we have to explain that 'it was not what I meant' or 'you misunderstood my message' and so on, due to poor choice of words. For example, a night club advertisement sign, that reads 'Clean and decent dancing every night except Sunday,' could lead to two interpretations. First that there is no dancing on Sundays and second, that there is dancing on Sundays but it is not clean and decent. Similarly,

when discussing a problem employee, a departmental head may tell his assistant 'to get rid of the problem.' He may mean to warn the employee or transfer him to another department. But the assistant may fire the employee believing that this was what was meant in the message. Accordingly, it is advised that if there is any ground for misunderstanding in a message, it be confirmed with the sender. For example, if you are giving your address to someone on the telephone, it is advisable that the receiver repeat this address so that the sender can verify it right away to reassure its accuracy.

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- **Perception:** Perception relates to the process through which we receive and interpret information from our environment and create a meaningful world out of it. Different people may perceive the same situation differently. Hearing what we want to hear and ignoring information that conflicts with what we know can totally distort the intent or the content of the message. Some of the perceptual situations that may distort a manager's assessment of people resulting in reduced effectiveness of the communication are as follows:
  - o A manager may perceive people to belong to one category or another as stereotypes, rather than unique and distinct individuals. For example, he may perceive women to be less efficient managers or old people less hard working and lacking drive and creativity.
  - o A manager may make his complete assessment of a person based on a single trait. A pleasant smile may make a positive first impression. Punctuality alone or loyalty alone may cause a favourable perception in the mind of the manager.
  - o A manager may assume that his subordinate's perception about things and situations are similar to his own. For example, a manager who accepts added responsibilities and challenges with enthusiasm may expect the same from his subordinates. This perception limits the manager's ability to effectively respond to and deal with individual differences and differing views of work situations.

The management must realize and recognize these differences in perceptions and take steps to understand the environment. A successful manager must be aware of the impact of factors that affect perception by interaction with others and should also possess the ability to influence or change the perceptions of others where necessary so that events and situations are interpreted as accurately and objectively as possible. For example, an employee may resist a message simply because he has not developed a trust in the manager due to past experiences. If he was promised a bonus or promotion on certain accomplishments and did not receive the promised rewards, he may tend to ignore the communication wherever possible. Accordingly, the manager must take steps to eliminate such negative perceptions among the employees.

**NOTES****Cultural Barriers**

The cultural differences can adversely affect the communication effectiveness, especially for multinational companies and enterprises with a multi-ethnic workforce.

Some examples are as follows:

- (a) Advertisement about Action Man Soldier toys, where toy soldiers were in tanks holding machine guns, was not permitted in West Germany where they were interpreted as promoting violence.
- (b) In Austria and France, children are not permitted to do television commercials.
- (c) Most Jewish people will not work on Saturdays and most Muslims will not work on Friday afternoons.
- (d) Establishing deadlines to accomplish work assignments is considered rude in most Middle East countries.
- (e) Punctuality in some countries is not considered important.
- (f) Many important meetings and activities are contemplated after consultations with astrologers in India.
- (g) 'Coke adds life' may be misinterpreted as a device for long life.

Accordingly the management must recognize these barriers as culturally based and identify these cultural differences and attempt to minimize any adverse effects on communication effectiveness due to these differences.

**Sender Credibility**

When the receiver believes the sender of the communication has high credibility the message is taken much more seriously and accepted at face value. If the receiver has confidence, trust and respect for the sender, then the decoding and the interpretation of the message will be closer to the intended meaning of the sender. Conversely, if the sender is not trusted, then the receiver will scrutinise the message closely and deliberately look for hidden meanings or tricks and may end up distorting the entire message. Similarly, if the source is believed to be an expert in a particular field then the listener may pay close attention, and believe the message specially if the message is related to the field of expertise. For example, an expert nuclear engineer may be viewed as a credible source on building a nuclear power plant and may be totally disregarded regarding his views on abortion.

**Emotions**

The interpretation of a communication also depends upon the state of the receiver at the time when message is received. The same message received when the receiver is angry, frustrated or depressed may be interpreted differently than when he is happy. Extreme emotions are most likely to hinder effective communication because rational judgments are replaced by emotional judgments.

## Multi-meaning Words

Many words in the English language have different meanings when used in different situations. Accordingly, a manager must not assume that a particular word means the same thing to all people who use it. A study by Lydia Strong concluded that for the 500 most common words in English, there were 4,070 different dictionary definitions. For example, the word 'run' can be used in 15 different ways. Some of the examples are as follows:

- Babe Ruth scored a 'run'.
- She has a 'run' in her stocking.
- Did you see him 'run'?
- What headlines do you want to 'run' today?
- There was a 'run' on the bank today.
- Who will 'run' for president this year?
- Please 'run' my bath water.

Accordingly, managers must make sure that they use the word in the same manner as the receiver is expected to understand it, otherwise it will create a barrier to proper understanding of the message.

## Feedback Barriers

The final source of communication process problems lies in the feedback or lack of it. Feedback is the only way to ascertain as to how the message was interpreted. Feedback closes the communication loop and is important for effective communication. It is equally important to pay attention to feedback. The feedback may be for the purpose of communicating the results of an action or it may be for asking questions about communication for further clarifications. A student who misunderstands a question in the exam but does not have the provision to ask for clarification may end up giving the wrong answer. The omission of feedback can cause another problem in that the sender may have another message that depends upon the response to the first message. Thus no feedback or wrong feedback will create problems with the communication of the subsequent message.

### 8.2.3 Overcoming Communication Barriers

It is very important for the management to recognize and overcome barriers to effective communication for operational optimization and this would involve diagnosing and analyzing situations, designing proper messages, selecting appropriate channels for communicating these messages, assisting receivers of messages in correct decoding and interpretation and providing an efficient and effective feedback system. Some of the steps that can be taken in this respect are as follows:

- **Feedback and upward communication:** Feedback helps to reduce misunderstandings. Information is transferred more accurately when the

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receiver is given the opportunity to ask for clarifications about the message. Two-way communication, even though more time consuming, avoids distrust. It leads to trust and openness that builds a healthy relationship contributing to communication effectiveness. Upward communication is strengthened by keeping an open door policy and providing opportunities to workers to give their suggestions which the management should acknowledge and take appropriate action.

- **Improve listening skills:** According to Stuart Chase, 'listening is the other half of talking'. It is a very important part of the communication process. Listening is an active mental process and goes beyond simply hearing. Good listening habits lead to better understanding and good relationships with each other.

### Guidelines for Effective Communication

The following guidelines are designed to help management improve their skills in communicating so as to avoid any barriers to effective communication and to strengthen the basis for optimum results that depend upon a clear understanding of the desired communication. These guidelines are partially based upon the principles proposed by American Management Association. These are as follows:

- **The ideas and messages should be clear, brief and precise:** The ideas to be communicated must be well planned and clearly identified. This will eliminate ambiguity so that the message will not be subject to more than one interpretation. The message must be clear, precise and to the point and free from distortions and noise. It should also be brief so that it is just about necessary and sufficient and should avoid loose ends or meaningless and unnecessary words.
- **Sense of timing:** The message should be timely so that the decisions and actions can be taken in time and when necessary. The timing of the message and the environmental setting in which the message is delivered and received is equally important. An important message delivered at the wrong time or in a non-conducive environment may lose its effectiveness. The environment involves physical setting such as whether the communication is conveyed in private or not, and it also involves social climate that determines the work setting as well as interpersonal relationships.
- **Integrity:** The communication must pass through the proper channels to reach the intended receiver. The communication flow and its spread must avoid bypassing levels or people. When these concerned levels are omitted or bypassed, it creates bickering, distrust, confusion and conflict. Accordingly, the established channels must be used as required.
- **Consult with others who are involved in planning the communication:** If people have participated in the planning process, they would be highly motivated to give active support to such communication and would carry it through. Such participation would also widen the scope and the objectivity of



communication. The people who are concerned must know exactly what they need to know and when they need it. The purpose of communication must be clearly known as to what is to be achieved and how.

- ***Be prepared to help the receiver:*** Take the receiver's interests into account, then the receiver will be more responsive to the communication. The management must clarify any part of the communication that may be necessary and must encourage comments, questions and feedback. The management must always be helpful in carrying out the intended message of the communication.
- ***Mode of delivery:*** Not only are the clarity of intent and content of the message important and necessary, but also the method of delivery. Avoid negative statements like, 'I am not sure it will work'. Be confident and definitive. The success of the communication also depends upon the tone of the voice if the communication is verbal, expressions and emotions exhibited, attentiveness to the receiver and so on. The written communication should be polite and unambiguous.
- ***Use proper follow-up:*** Unless it is a one-way communication that is simply meant to inform, all communications need a follow-up to ensure that these were properly understood and carried out. A verbal communication may need to be followed up by written confirmation. The response and feedback to the communication would determine whether the action to the communication has been prompt, appropriate and accurate. Inappropriate or delayed responses should be immediately investigated and corrective measures instituted.
- ***Communication should be comprehensive:*** Communication should be complete so as not only to meet the demands of today but, should also take into consideration future needs of the organization as well as individuals. A reasonable projection of the assessment of future needs and environments – both work and social – should be incorporated when planning and executing communication.

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### Check Your Progress

1. State the three primary methods of communicating in organizations.
2. What is a communication network?

## 8.3 LEADERSHIP: MEANING AND STYLES

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

**NOTES****Autocratic or Dictatorial Leadership**

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

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

**Advantages**

- (a) 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 in performing without active supervision.
- (b) It can increase efficiency and even morale when appropriate and get quicker results, especially in a crisis or emergency when the decision must be taken immediately.
- (c) Paternalistic leadership is useful when the subordinate are not interested in seeking responsibility or when they feel insecure at the job or when they work better under clear and detailed directives.
- (d) It is useful when the chain of command and the division of work is clearly understood by all and there is little room for error in the final accomplishment.

**Disadvantages**

- (a) One-way communication without feedback leads to misunderstanding and communications breakdown.
- (b) An autocratic leader makes his own decisions which can be very dangerous in this age of technological and sociological complexity.
- (c) It inhibits the subordinate's freedom and fails to develop his commitment to the goals and objectives of the organization.
- (d) It creates an environment which provides for worker resentment and therefore creates problems with their morale resulting in poor productivity in the long run.

- (e) It is unsuitable when the workforce is knowledgeable about their jobs and the job calls for team work and cooperative spirit.

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### **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 the growth and development of the organization as well as the individual's personality. The feasibility and usefulness of the participative decision-making style is dependent on the following factors:

1. Participative decision-making process is time consuming. Therefore, there should be no urgency to the decision.
2. The cost of participation of subordinates in the decision-making should not be more than the benefits derived from the decision.
3. The input from the subordinates should be free from any fear of repercussions in case such input is in conflict with the views held by the management.
4. The participation of subordinates should not be of such a degree as to be perceived as a threat to the formal authority of management.
5. Subordinates should be sufficiently responsible so that there is no leakage of confidential information to outside elements.

### ***Advantages of participative leadership***

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

- (a) Active participation in the managerial operations by labour assures rising productivity and satisfaction.
- (b) Workers develop a greater sense of self-esteem due to the importance given to their ideas and their contribution.
- (c) The employees become more committed to changes that may be brought about by policy changes, since they themselves participated in bringing about these changes.
- (d) Leadership induces confidence, cooperation and loyalty among workers.
- (e) It results in higher employee morale.

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- (f) It increases the participants' understanding of each other which results in greater tolerance and patience towards others.

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

### ***Disadvantages of participative leadership***

Participative leadership has several disadvantages as well. Some of these are as follows:

- (a) Democratic leadership requires some favourable conditions in that the labour must be literate, informed and organized. This is not always possible.
- (b) 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.
- (c) There must be total trust on the part of management as well as employees. Some employees may consider this approach simply as an attempt to manipulate them. Accordingly, the employees must be fully receptive to this approach in order to make it meaningful.
- (d) Some group members may feel alienated if their ideas are not accepted for action. This may create a feeling of frustration and ill-will.
- (e) This approach is very time consuming and too many viewpoints and ideas may make the solid decision more difficult. This may be a source of frustration to impatient management.
- (f) Some managers may be uncomfortable with this approach because they may fear an erosion of their power base and their control over labour.
- (g) 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.

### **Laissez-Faire or Free-Reign Leadership**

In this type of leadership, the leader is just a figure-head and does not give any direction. He delegates the authority to subordinates so that they must plan, motivate, control and otherwise be responsible for their own actions. The leader acts principally as a liaison between the group and the outside elements and supplies necessary materials and information to the group members. He lets the subordinates develop their own techniques for accomplishing goals within the generalized organizational policies and objectives. The leader participates very little and instead of leading and directing, he becomes just one of the members. He does not attempt to intervene or regulate or control and there is complete group or individual freedom in decision-making. This type of leadership is highly effective when the group members are highly intelligent and are fully aware of their roles and responsibilities.

and have the knowledge and skills to accomplish these tasks without direct supervision.

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

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### Advantages

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

### Disadvantages

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

### 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 socioeconomic status are poor indicators of the judgements 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:

- (i) **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.
- (ii) **Problem solving skills:** An effective leader develops the patience and ability to look at the problem from various angles and get down to the cause of the problem. He tries to solve the problem from its roots rather than the symptoms of the problem.
- (iii) **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. Such leaders are self-confident,

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rational and open hearted towards differences in opinion and opposing viewpoints. They generally have a happy family life and have a balanced outlook towards life and the world. They are warm and sensitive and not vindictive in nature.

- (iv) ***Ability to understand human behaviour:*** A leader must understand the needs, desires and behaviour of his subordinates and show respect for such desires. He should be emotionally supportive and careful enough to avoid ego-threatening behaviour. He must give credit to subordinates when their efforts are successful.
- (v) ***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 straightforward manner without fear of consequences.
- (vi) ***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 the outcomes of actions must be reasonably predicted. Should these risks result in failure, a leader must take full blame and responsibility and not shift the blame on others, even though they may be operative factors. He must be willing to tolerate frustration and defeat and learn from these failures.
- (vii) ***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.
- (viii) ***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 smooth sailing only. He must be willing to take a stand on controversial issues and accept the consequences of his stand.

### Tactical Leadership

Tactical leadership is the ability of a leader to use past experiences to understand what specific actions need to be taken to achieve the organization's goals.

Tactical leadership is the concept of taking one's leadership experiences, and making effective use of them in a workplace setting. It also involves the application of new ideas to solve old problems. The tactical leader uses the skills they have learned to train, and prepare, subordinates to accomplish goals and objectives.

**Check Your Progress**

3. Who are autocratic leaders?
4. What is democratic leadership?

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## 8.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The three primary methods of communicating in organizations are written, oral and non-verbal.
2. A communication network is simply a diagram showing communication patterns or relationships that are possible within a group or among individuals.
3. Autocratic leaders keep the decision making authority and control in their own hands and assume full responsibility for all actions. They structure the entire work situation in their own way and expect the workers to follow their orders.
4. In democratic leadership, the subordinates are consulted and their feedback is taken into the decision-making process.

## 8.5 SUMMARY

- Before communication can take place, an idea or a purpose in the form of a message or information is needed for the purpose of conveying it to the intended receiver of such a message.
- There are three primary methods of communicating in organizations. These are written, oral and non-verbal.
- A communication network is simply a diagram showing communication patterns or relationships that are possible within a group or among individuals.
- One of the basic foundations of the organizational operations is the communication between superiors and subordinates in the hierarchical system.
- The downward communication is from the superior to the subordinate or from the top management to workers through the various hierarchical communications centres in between and may include such standard managerial tools as statement of the organizational philosophy and organizational objectives, standard operating procedures, standard quality control procedures, safety regulations and other relevant material.
- Upward communication moves in the opposite direction and is based upon the communication demand system designed by management to receive information from operational levels.

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- In addition to upward and downward communication, there is also 'horizontal' or 'lateral' communication among equals.
- This is more informal in nature and is necessary in promoting a supportive organizational climate.
- Noise is any external factor that interferes with the effectiveness of communication. The term is derived from noise or static effects in telephone conversation or radio wave transmission.
- Autocratic leaders keep the decision making authority and control in their own hands and assume full responsibility for all actions.
- The leader's job is primarily of a moderator, even though he makes the final decision and he alone is responsible for the results.
- Leadership is an intangible quality and its effectiveness can best be judged by the behaviour and attitudes of followers.

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## 8.6 KEY WORDS

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- **Encoding:** Encoding is the process inside the human mind or brain in the form of motor skills, muscle system or sensory skills that encode the ideas to be conveyed into a series of symbols or gestures or some other format of expression.
- **Message:** The message is the physical form of the thought that can be experienced and understood by one or more senses of the receiver.
- **Oral communication:** The most prevalent form of organizational communication is oral. It is also known as face-to-face communication and may be in the form of direct talk and conversation between the speakers and the listeners when they are physically present at one place or through telephone or intercom system conversation.
- **Upward:** Upward communication moves in the opposite direction and is based upon the communication demand system designed by management to receive information from operational levels.
- **Perception:** Perception relates to the process through which we receive and interpret information from our environment and create a meaningful world out of it.

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## 8.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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### Short-Answer Questions

1. Identify the various steps in communication model.
2. What are the various advantages of oral communication?



3. Define the concept of written communication.
4. Differentiate between upward and downward communications.
5. Define the term 'leadership'.

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### Long-Answer Question

1. Explain the concept of non-verbal communication.
2. Discuss some of the organizational barriers to effective communication.
3. Identify the various interpersonal barriers that disrupt the effectiveness of the communication process.
4. Discuss the guidelines for effective communication.
5. Mention some of the advantages and disadvantages of autocratic leadership.

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## 8.8 FURTHER READINGS

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# UNIT 9 CONTROLLING AND COORDINATION

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### Structure

- 9.0 Introduction
  - 9.1 Objectives
  - 9.2 Controlling
    - 9.2.1 Special Control Techniques: Budgetary, Traditional and Non-Budgetary Control Devices
  - 9.3 Coordination: Need and Techniques
  - 9.4 Answers to Check Your Progress Questions
  - 9.5 Summary
  - 9.6 Key Words
  - 9.7 Self Assessment Questions and Exercises
  - 9.8 Further Readings
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## 9.0 INTRODUCTION

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Control is very important in both organized living as well as 'living' organizations. When things go smoothly as planned, they are considered to be under control. 'self-control' is a word we are all familiar with and which simply means that we discipline ourselves in such a manner that we strictly adhere to our plans for our lives and generally do not deviate from these plans. Controls are there to ensure that events turn out the way they are intended to. It is a dynamic process, requiring deliberate and purposeful actions in order to ensure compliance with the plans and policies previously developed. This means that the managerial functions of planning and controlling are very closely related. Without proper controls, planning itself has little meaning.

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.

In this unit, you will deal with the concepts like controlling and coordination, their importance and types.

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## 9.1 OBJECTIVES

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

- Define the process of controlling
- Describe the different modern techniques of managerial control

- Explain why coordination is important
- Discuss the various types of coordination

## 9.2 CONTROLLING

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According to Robert L. Dewelt:

The importance of the planning process is quite obvious. Unless we have a sound chartered course of action, we will never quite know what actions are necessary to meet our objectives. We need a map to identify the timing and scope of all the intended actions. This map is provided through the planning process. However, simply making a map is not enough. If we do not follow it or if we make a wrong turn along the way, chances are we will never achieve the desired results. A plan is only as good as our ability to make it happen. We must develop methods of measurement and control to signal when deviations from the plans occur so that corrective action can be taken. The interrelationship between the functions of planning and controlling is clearly evident. Planning involves the establishment of the organization objectives and the development of strategies, while controlling establishes standards of performance and compares the actual results with the planned results to determine whether operations are being performed according to plans.

### Feed-Forward Controls

These controls are also known as pre-controls and are basically preventive in nature. The control takes place before a work is performed. In this regard, management creates policies, procedures and rules aimed at eliminating behaviour that can cause undesirable work results. These controls are designed to eliminate the cause of any deviation that might occur later in the process. For example, a thorough quality control on the input raw materials would be considered as a feed-forward control. This would eliminate problems in production or output that could be due to faulty raw materials. Similarly, if a student is doing poorly in course at the beginning of a semester, he should not wait until the end of the term to make changes in his study habits. He must make adjustments before it is too late.

These controls are meant to make sure that performance objectives are clear and all resources are available at the time when needed in order to attain these objectives.

### Feedback controls

Also known as post-action control, feedback controls measure results from completed action. The result of the completed activity is 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

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exceed the budgeted expenses for a given year, then the reason for such a difference can be investigated and in the light of this feedback the budget for the following year can be revised or controlled.

One advantage of feedback control is that it enhances employee motivation. People want information as to how well they have performed and feedback control provides this information.

### Requirements of Effective and Integrated Controls

Controls at every level focus on inputs, processes and outputs. It is very important to have effective controls at each of these three stages. Effective control systems tend to have certain common characteristics. The importance of these characteristics varies with the situation, but in general, effective control systems have the following essential characteristics.

- **Accuracy:** Effective controls generate accurate data and information. Accurate information is essential for effective managerial decisions. Inaccurate controls would divert management efforts and energies on problems that do not exist or have a low priority and would fail to alert managers to serious problems that do require attention.
- **Timeliness:** There are many problems that require immediate attention. If information about such problems does not reach management in a timely manner, then such information may become useless and damage may occur. Accordingly, controls must ensure that information reaches the decision makers when they need it so that a meaningful response can follow.
- **Flexibility:** The business and economic environment is highly dynamic in nature. Technological changes occur very fast. A rigid control system would not be suitable for a changing environment. These changes highlight the need for flexibility in planning as well as in control. Strategic planning must allow for adjustments for unanticipated threats and opportunities. Similarly, managers must make modifications in controlling methods, techniques and systems as they become necessary. An effective control system is one that can be updated quickly as the need arises.
- **Acceptability:** Controls should be such that all people who are affected by it are able to understand them fully and accept them. A control system that is difficult to understand can cause unnecessary mistakes and frustration and may be resented by workers. Accordingly, employees must agree that such controls are necessary and appropriate and will not have any negative effects on their efforts to achieve their personal as well as organizational goals.
- **Integration or Integrated control:** When the controls are consistent with corporate values and culture, they work in harmony with organizational policies and hence are easier to enforce. These controls become an integrated part of the organizational environment and thus become effective.

- **Economic feasibility:** The cost of a control system must be balanced against its benefits. The system must be economically feasible and reasonable to operate. For example, a high security system to safeguard nuclear secrets may be justified but the same system to safeguard office supplies in a store would not be economically justified. Accordingly, the benefits received must outweigh the cost of implementing a control system.
- **Strategic placement:** Effective controls should be placed and emphasised at such critical and strategic control points where failures cannot be tolerated and where time and money costs of failures are greatest. The objective is to apply controls to the essential aspect of a business where a deviation from the expected standards will do the greatest harm. These control areas include production, sales, finance and customer service.
- **Corrective action:** An effective control system not only checks for and identifies deviation but also is programmed to suggest solutions to correct such a deviation. For example, a computer keeping a record of inventories can be programmed to establish 'if-then' guidelines. For example, if inventory of a particular item drops below five per cent of maximum inventory at hand, then the computer will signal for replenishment of such items.
- **Emphasis on exception:** A good system of control should work on the exception principle, so that only important deviations are brought to the attention of management. In other words, management does not have to bother with activities that are running smoothly. This will ensure that managerial attention is directed towards error and not towards conformity. This would eliminate unnecessary and uneconomic supervision, marginally beneficial reporting and a waste of managerial time.

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### Tailoring Controls to Individual Managers and Plans

A business organization should be able to tailor controls suited to the particular plan or manager. Controls should be designed keeping in mind certain elements that a control process must constitute.

According to Robert J. Mockler:

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

Mockler's definition divides the process of control into four steps. These steps are described as follows:

### Establishing Standards

The control process begins with the establishment of standards of performance against which organizational activities can be compared. These are levels of activities

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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 over a period of time, profit to be made per unit and so on. Vaguely worded standards or general goals such as 'better skills' or 'high profits' are difficult to interpret and hence lead to confusion and conflict. For example, the goal of a real estate broker may be to sell four houses per month. He can then plan the month and monitor his performance. Similarly, a vice-president in charge of production may have a goal of keeping the production cost within the assigned budget over a period of time. In attaining such a goal, he will be able to monitor the costs and take corrective actions wherever it is necessary. In another example, a college professor may have set a goal of covering ten units from a book over a period of one semester. He can plan his schedule of teaching accordingly to meet that goal. These precisely-stated standards, goals and objectives facilitate communication with all persons making the control process easier to monitor.

There are situations where it is not possible to quantify standards such as in the case of high morale, community relations, discipline or creativity. In such cases, all efforts should be made to fully understand these qualitative goals and design control mechanisms that would be useful in measuring performance in these situations. Most of these control mechanisms would be subjective in nature and decisions would be made on the basis of experience, analytical observations and intuitive judgments. Some of the quantitative standards against which performance can be measured are as follows:

- **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.
- **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.
- **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.
- **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.
- **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.

- **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.
- **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.
- **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.

### Measuring Performance

Once the standards have been established, the second step in the controlling process is to monitor and measure the actual performance. Monitoring and measuring is a continuous activity and involves collection of relevant data that represents the actual performance of the activity so that a comparison can be made between what is accomplished and what was intended to be accomplished. The measurement of actual performance must be in the units similar to those of predetermined criterion. The unit or the yardstick thus chosen should be clear, well-defined and easily identified and should be uniform and homogeneous throughout the measurement process.

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

- (i) **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 programme. Similarly, the number of patient beds in a hospital would be a measure of input for providing health care. A salesperson's performance may be measured by the number of calls he makes per day. Peter Blau gives an example of an employment 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

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jobs. Similarly, the number of beds in a hospital does not necessarily mean quality health care which is the ultimate goal.

- (ii) **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.
- (iii) **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.
- (iv) **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.
- (v) **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 sales person 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:

- (i) **Mechanized measuring devices:** This involves a wide variety of technical instruments used for measurement of machine operations, product quality for



size and ingredients and for production processes. These instruments may be mechanical, electronic or chemical in nature. Some electronic devices are used to check passengers at the airport for carrying prohibited items, while some are used to detect shoplifting and unchecked books from the library. Polygraph tests are used to check people's explanations for certain acts.

Computers are becoming increasingly important as measuring devices. They can monitor operations as they occur and simultaneously analyze data so collected. Many retail stores use computerized scanning equipment that simultaneously monitors sales and prices of various items and tracks inventory by department, vendor and branch store.

- (ii) **Ratio analysis:** Ratio analysis is a powerful management tool for measuring various aspects of business operations. It describes the relationship of one business variable to another. +6
- (iii) **Comparative statistical analysis:** The operations of one company can be usefully compared with similar operations of another company or with industry averages. It is a very useful and practical performance measuring methodology. For example, farmers can compare output per acre with farmers at other locations. Any differences can be investigated and the reasons for such differences can be ascertained. Similarly, hospitals at one location can measure their medical costs against those of other hospitals, and the performance of police departments can be measured by comparing crime rates in their locality with those in other localities. Statistical models can be used for such measurements and such comparisons.
- (iv) **Personal observation:** Personal observation, both formal as well as informal can be used in certain situations as a measuring device for performances, especially the performances of personnel. The informal observation is generally day-to-day routine type. A manager may walk through a store to get a general idea about how people are working. An airline officer may fly incognito to evaluate the performance of 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 shows us if anything has gone wrong in the process or operations; if there is any deviation, negative or positive and what must be done as

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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.

### Taking Corrective Action

Once the deviations have been detected and presented to the management for consideration, the decision must be taken as to what corrective actions are needed to remedy the situation. However, these corrective actions must be taken within the constraints of acceptable tolerance levels, outside environmental constraints such as those imposed by organizational culture or guidelines, labour unions, political and economic considerations and internal constraint of cost and personnel.

Since the actual results do not always conform to the desired results, some deviations may be expected for which no corrective action may be needed. However, when deviations are of a sufficiently serious nature, the following actions may be taken.

- Management must deal with the root causes of the problems and not the symptoms.
- Any corrective action should be taken promptly in order to make it most effective.
- Whenever and wherever possible, the corrective action should be built into the existing operations and these controls should be self-monitoring, i.e., the actions should be automatic such as in the case of a thermostat in controlling the heat. (This field is known as 'cybernetics').
- It must be understood that the goal itself is not a static phenomenon, but is a function of the dynamics of the environment. Hence a look into the need for altering the target itself caused by shifts in the environment may be necessary.

### Ensuring Flexibility of Controls

A good budgetary control technique should have the following essential features:

- **Prompt feedback:** A good budgetary control technique should be able to give prompt feedback concerning actual performance to the managers. This can enable them to take quick actions to rectify and correct deviations.
- **Clear-cut goals:** Budgetary goals should be laid in definite terms for accurate calculation and analysis of results.
- **Responsibility accompanied by authority:** Besides the responsibility to achieve budgetary targets, the concerned employees must be given the required authority to apply the budgetary control technique.
- **Comparison:** Comparisons between the budgetary targets and functioning results must be carried on from time to time. This facilitates early discovery of deviations and minimizes possibility of loss.

- **Flexibility:** Budgets should be open to changes and review according to changing market conditions. A good budgetary control technique should permit considerable freedom to the person utilizing it.
- **Harmonious participation:** As a budget is a unified action, it should be prepared in consultation with the employees. This will improve the level of understanding the budget in the organization.

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### Fitting the Control System to the Organization Culture

Some of the basic guidelines to make the control process more effective and acceptable by employees are as follows:

- **Set meaningful and attainable standards:** The standards should be realistically set and the control system would work more effectively if there has been an appropriate input from the workers who are expected to meet these standards.
- **Establish an effective, accurate and timely two-way communication:** For any control system to be effective, information regarding any deviation must be communicated to management and workers as quickly as possible. This information and feedback must be accurate because the outcome is dependent upon the accuracy of the informational input.
- **Reward attainment of standards:** The control system would work much better if the employees directly responsible for attaining the set standards were recognized for their contribution because such recognition would boost their morale and induce them to move even more positively towards attainment of higher goals. This recognition could be in the form of financial rewards or other forms of status improvement.
- **Get the workers involved:** The best means of effective managerial controls are the development of voluntary cooperation, participation, sense of responsibility, self-control and self-discipline. Self-control adds higher value to a person's self, resulting in higher internal satisfaction and self-actualisation that further induces personal involvement in work and the employees take personal pride in effective work performance.

#### 9.2.1 Special Control Techniques: Budgetary, Traditional and Non-Budgetary Control Devices

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

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### 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.

It shows the impact of change in anyone 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 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.

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### 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.

### 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.

#### **Check Your Progress**

1. What are feed-forward controls?
2. Define feedback controls.
3. What do you understand by the term 'budgetary control'?
4. What is Return on Investment (ROI)?

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### 9.3 COORDINATION: NEED AND TECHNIQUES

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The following are the characteristics of coordination:

- Coordination is not a distinct function. It represents the core of management.
- The purpose of coordination is to achieve the common objective.
- Coordination is a continuous and an ongoing process.
- Coordination does not arise spontaneously or by force. It is the result of concerted action.

#### Need for Coordination

Existence of disintegrating forces emphasises the need for greater coordination among various divisions of an enterprise. The disintegrating forces may act as barriers to effective coordination. The factors that emphasise on the need for coordination are as follows:

- **Increasing specialisation:** Coordination becomes essential when the principle of specialisation has been practised in a work area. The activities of the unit may be divided on the basis of product, function, region or some other form. Every employee is mostly concerned about his/her unit's performance. It results in conflicting interests within the same organization. A good coordination paves the way for effective integration of efforts of all people for the accomplishment of a common goal.
- **Empire building motive:** Each employee is motivated by his performance in the unit. As a result, this kind of attitude may fulfil his personal and professional ego but isolate him from others. Organizational goals cannot be accomplished with this kind of tendency. Coordination is essential to ease out this situation.
- **Personal conflicts between employees:** Personal rivalries, jealousies and politics among the employees in the work situation are bound to create problems to the management. For example, conflicts between any two divisions or departments of the organization create problems in the smooth functioning of an organization. Coordination helps in harmonising group efforts within the organization.
- **Subordination of individual interest to that of organizational interest:** Individual interests are important for developing loyalty, integrity, hard work, initiation and motivation. Organizational interests are much more important than individual interests. For achieving organizational interest, subordination of individual needs is a must as organizational goals are prior to individual goals. The purpose of coordination is to attain the organizational interest.

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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.

### Types of Coordination

Depending upon the nature, coverage and flow, coordination may be divided into the following:

- Internal and external coordination
- Vertical and horizontal coordination
- Procedural and substantive coordination

### Internal and External Coordination

Coordination between units of the same organization is termed as internal coordination. It summarises 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. External coordination tries to coordinate all these forces to the advantage of an organization.

### 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 top to the bottom, work in harmony. It is greatly facilitated by a technique like delegation of authority to the lower levels of hierarchy. Coordination between people of the same cadre and between different departments at the same level is termed as horizontal coordination.

### Procedural and Substantive Coordination

Procedural coordination implies the generalised 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 Follet has laid down the following four principles for effective coordination. These principles help every manager in discharging his functions.

- **Early Start:** The task of coordination becomes relatively easy if it starts at the planning stage. Free exchange of ideas helps in clearing doubts and removing misunderstanding. Hence, plans must be prepared in consultation



with all people. Plans become successful if coordination is practiced at an initial stage. Securing coordination becomes impossible at later stages like execution of work.

- **Direct Personal Contact:** Coordination stresses the importance of direct contact in removing conflicts and misunderstanding. Effective coordination is best achieved through direct personal contact. Direct communication is the most effective way to convey real feelings to facilitate greater coordination.
- **Continuity:** Coordination is an unending process. The management has to continuously strive hard to maintain perfect balance among different units/people. Continuous coordination helps the manager to adjust the cooperative activities of employees to minimise wastages, misunderstanding and apathy.
- **Integration:** The fourth principle of coordination calls for integration of efforts for achieving a common purpose. For this purpose, coordination demands integrated relationship among all the concerned people.

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### Approaches for Achieving Effective Coordination

Different organizations adopt different mechanisms for achieving effective coordination. There is no single method of coordinating the managerial activities that can be universally acceptable. J.D. Thomson has identified three important categories of approaches for achieving effective coordination:

1. **Integration through standardization:** It involves the development of standard rules and procedures through which the job holders/ departments have to direct their activities in order to ensure consistency in operations.
2. **Plans and schedules:** Separate plans and schedules may be prepared for each department or unit. At the corporate level, all plans are merged and integrated so as to obtain optimum results. Coordination becomes easy since departmental plans are flexible than standards.
3. **Mutual adjustments:** Activities of the company are coordinated through mutual adjustments among the sister units/departments on a contingency basis. Here cooperation is assured between the needy units for the purpose of getting things done.

In traditional organizations, coordination is achieved through standardisation and planning. In the usual methods of coordination, complicated system of rules and procedure are created for sorting out recurring problems. These rules are followed by the traditional and bureaucratic organization.

Traditional organizations could be advantageous by following the rules of coordination among various units of the organization. But, the traditional approach of coordination is inadequate to meet the requirements of a modern organization under a dynamic environment. More sophisticated methods have been developed

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by the researchers for the purpose of improving coordination. John Child suggested the following forms of coordination for improved functioning of the organization.

- For understanding the business problems and offering solutions, direct contact between managers and employees facilitates greater coordination.
- While too much understanding is required between employees and departments, liaison officers can be appointed for better coordination.
- Special committees can be formed to deal with the recurring problems of inter departmental conflicts.
- In an organization, it is difficult to coordinate several divisions and activities in a systematic manner. To ease out this problem, a coordinating department may be created within the organization on par with other departments to perform this special function.

Matrix type of organization helps in developing effective coordination. - In this type of organization, functions of some of the personnel may be integrated with the functions of other departments. It helps encourage effective understanding between various divisions or departments within the organization. This facilitates higher degree of coordination among the member units of an organization.

Van de Ven has proposed three approaches for effective coordination. They are summarised below.

- **Impersonal mode:** This model predicts designing of rules, procedures and programmes suitable for smooth functioning of the organization.
- **Personal mode:** Here, human beings are encouraged to find out how things are going on and to discriminate what to do and what not to do through effective feedback. Personal involvement surely contributes to effective coordination.
- **Group mode:** When operations are large, a single individual cannot coordinate properly. This model suggests the establishment of committees, task forces and meetings. The logic behind this approach is that 'two brains can think better than one brain.'

The coordination depends upon factors like size of the organization, complexity of its work, nature of work force, certainty and uncertainty conditions, delegation of authority. The process of coordination becomes useful and meaningful only with the delegation of appropriate authority.

In order to minimize the problems of overriding departmental interest for the organizational objective, effective coordination is needed. For example, a finance manager may issue direction that no overtime allowance is paid to the workers. While the production manager issues another direction for entitling overtime

allowance to employees for completing the production target. This situation results in misunderstanding and conflicts and a solution for this type of problem lies with effective coordination among member departments.

To sort out all these coordination problems, big organizations are now creating separate departments for coordination. New rules and procedures may be developed to minimize problems like red-tapism overriding goals, blind loyalty and friction.

### Techniques of coordination

Following are the techniques of effective coordination:

- 1. Sound planning:** The first important condition for effective coordination is unity of objective. Planning helps in achieving goals with the combined effort. Sound planning sets clear-cut objectives, synchronized policies and unified procedures ensuring uniformity of action.
- 2. Simplified organization:** The organization structure should be clearly defined from top authority level to bottom. Clearly defined authority and responsibility reduce conflicts within the organization.
- 3. Effective communication:** Communication is the key to coordination. Open and regular communication helps in interchange of opinions and resolving differences between the management and employees. Thus, communication develops mutual understanding among the employees.
- 4. Effective supervision:** Effective supervision helps in achieving coordination at the planning and execution stage. A good supervisor inspires his subordinates to strive for the common objective. Sound supervision persuades subordinates to have a common outlook towards the goal and resolves the differences of opinion.
- 5. Associated departments:** For effective coordination contacts between associated departments is necessary. For example, the production, sales and marketing departments are interdependent. Therefore special coordinators should be appointed to coordinate the activities of different departments within the specified period of time.

### Check Your Progress

5. State any two characteristics of coordination.
6. What is internal coordination?

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### 9.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. Feed-forward controls are also known as pre-controls and are basically preventive in nature. The control takes place before a work is performed.
2. Also known as post-action control, feedback controls measure results from completed action. The result of the completed activity is compared with pre-determined standards, and if there are any deviations, corrective action can be taken for future activities.
3. 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.
4. Alternatively called as Rate of Return, ROI 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.
5. The two characteristics of coordination are as follows:
  - Coordination is not a distinct function. It represents the core of management.
  - The purpose of coordination is to achieve the common objective.
6. Coordination between units of the same organization is termed as internal coordination.

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### 9.5 SUMMARY

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- Control is very important in both organized living as well as 'living' organizations. When things go smoothly as planned, they are considered to be under control.
- Feed-forward controls are also known as pre-controls and are basically preventive in nature. The control takes place before a work is performed.
- Also known as post-action control, feedback controls measure results from completed action.
- Effective controls generate accurate data and information. Accurate information is essential for effective managerial decisions.
- 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.

- The cost of a control system must be balanced against its benefits.
- A good budgetary control technique should be able to give prompt feedback concerning actual performance to the managers.
- The process of planning and controlling go hand in hand in the management of any organization.
- Coordination becomes essential when the principle of specialisation has been practised in a work area.
- 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.

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### 9.6 KEY WORDS

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- **Controlling:** Controlling is the process of ensuring that actual activities conform to planned activities.
- **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.

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### 9.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. What are the various essential characteristics for effective control systems?
2. Mention some essential features that a good budgetary control technique should have.
3. Give some of the basic guidelines to make the control process more effective and acceptable by employees.
4. Differentiate between budgetary and non-budgetary control techniques.
5. Write a short note on the break-even analysis.

#### Long-Answer Question

1. Explain the process of controlling.
2. Discuss the five types of evaluations, according to Suchman.
3. Describe the different modern techniques of managerial control.
4. Explain why coordination is important.
5. Discuss the various types of coordination.

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## 9.8 FURTHER READINGS

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# UNIT 10 DIRECTING AND SUPERVISION

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*Directing and  
Supervision*

## NOTES

### Structure

- 10.0 Introduction
- 10.1 Objectives
- 10.2 Techniques and Importance of Direction
- 10.3 Principles and Characteristics of Direction
  - 10.3.1 Supervision
- 10.4 Answers to Check Your Progress Questions
- 10.5 Summary
- 10.6 Key Words
- 10.7 Self Assessment Questions and Exercises
- 10.8 Further Readings

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## 10.0 INTRODUCTION

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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. 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. In this unit, you will deal with the techniques and importance of direction. You will also discuss the principles and characteristics of direction

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## 10.1 OBJECTIVES

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

- Explain the process of direction
- Describe the role of a supervisor
- Define the various functions of a supervisor

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## 10.2 TECHNIQUES AND IMPORTANCE OF DIRECTION

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### NOTES

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. What is the organizational climate or the internal environment? Does it have any physical characteristics or is it primarily the way it is perceived by its members? 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.

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 as follows:

- (i) **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 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.
- (ii) **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.
- (iii) **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.

- (iv) **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 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.

### 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.

A human relation is a highly diverse field. Human beings can interact 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: cultural influences, role and status of a person in a community, informal social groups and the power they yield in organizations; perceptions that vary from individual to individual; logic and emotions, which also vary from person to person. Man is sometimes directed by his emotions even while taking logical decisions.

The measure of success of the directing function would depend not only upon 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 and dedication among workers.

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### Check Your Progress

1. What is organizational climate?
2. What is a task-oriented organization?

## 10.3 PRINCIPLES AND CHARACTERISTICS OF DIRECTION

Some of the principles of direction are as follows:

- **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.
- **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.
- **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.
- **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.
- **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, (i) magnitude and, (ii) 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.

### 10.3.1 Supervision

*Directing and  
Supervision*

Supervision is one of the elements of direction besides motivation, leadership and communication. It is performed at all levels of management as it means guiding the efforts of employees and other resources to achieve the desired output.

Supervisors are responsible for their direct reports' progress and productivity in the organization. Supervision often includes conducting basic management skills (decision making, problem solving, planning, delegation and meeting management).

#### Role of Supervisors

A supervisor plays two important roles:

1. **Role of mediator:** Supervisor plays the role of a mediator as he communicates the plans, policies, decisions and strategies of management to subordinates and complaints, grievances and suggestions of subordinates to management.
2. **Role of a guide:** Whenever subordinates are in doubt and need help the supervisor guides them to come out from their problematic situations.

#### Functions of a Supervisor

The following are the major functions of a supervisor:

- **Ensures issuing of instructions:** A good supervisor always makes sure that all the instructions are communicated to every employee. The top-level and middle-level management, plan out all the instructions, but the instructions are provided only by supervisory level management.
- **Discipline:** The strict supervision and guidance of supervisor encourages the employees and workers to be more disciplined in their activities. Under the guidance of supervisor the workers follow a fixed or strict time-table and execute the plans in right directions.
- **Facilitates control:** Whenever the workers are under constant supervision and if they are deviating from plan then immediate instructions are issued by the supervisor. By this constant monitoring, the supervision function ensures strict control over the activities of subordinates.
- **Optimum utilization of resources:** When the workers are constantly monitored or observed then they always use the resources in the best possible manner which leads to minimum wastage. However, if there is no supervision on workers they may result in wastage of resources.
- **Improves communication:** Supervisors issue instructions and orders to all the subordinates and make sure that these instructions and orders are clear to all the employees.

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## NOTES

### Check Your Progress

3. Define the role of supervisor as a mediator.
4. State the major functions of a supervisor.

## 10.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Schneider refers to organizational climate as the entire internal environment of the organization.
2. In a task-oriented organization, all efforts are directed towards goal achievement.
3. Supervisor plays the role of a mediator as he communicates the plans, policies, decisions and strategies of management to subordinates and complaints, grievances and suggestions of subordinates to management.
4. The following are the major functions of a supervisor:
  - Ensures issuing of instructions
  - Facilitates control
  - Optimum utilization of resources

## 10.5 SUMMARY

- Direction is concerned with directing the human efforts towards organizational goal achievement.
- Since the purpose of directing is to make effective use of employees, it is usually initiated by the higher echelons of management.
- Schneider refers to organizational climate as the entire internal environment of the organization.
- 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.
- In a task-oriented organization, all efforts are directed towards goal achievement.
- Direction is concerned with securing the cooperation of workers for the realization of organizational objectives.
- A human relation is a highly diverse field. Human beings can interact with each other in a number of ways—everything from helping and cooperation on one extreme to conflict and aggression on the other.

- The superiors should maintain direct contact with subordinates; Informal relationships facilitate the function of directing.
- The subordinates' morale will be higher when their views are seriously incorporated into the managerial decision making.
- 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.
- Supervision is one of the elements of direction besides motivation, leadership and communication.
- Supervisor plays the role of a mediator as he communicates the plans, policies, decisions and strategies of management to subordinates and complaints, grievances and suggestions of subordinates to management.

## NOTES

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### 10.6 KEY WORDS

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- **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.
- **Supervisor:** A Supervisor, when the meaning sought is similar to foreman, foreperson, overseer, cell coach, manager, facilitator, monitor, or area coordinator, is the job title of a low level management position that is primarily based on authority over a worker or charge of a workplace.
- **Decision:** A decision can be defined as a course of action purposely chosen from a set of alternatives to achieve organizational or managerial objectives or goals.

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### 10.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. Mention the principles of direction.
2. What are the various functions of a supervisor?
3. What are the techniques of direction?
4. Write a short note on the organizational climate.

#### Long-Answer Question

1. Explain the process of direction.
2. There are a number of categories that define the climate of many organizations. According to Harrison, there are four broad categories. Discuss these categories.

3. Describe the role of a supervisor.
4. Explain the role of supervisor as a mediator.

## NOTES

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### 10.8 FURTHER READINGS

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- Drucker, Peter. 2012. *Management*. United Kingdom: Routledge.
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## BLOCK III

### GUIDING AREA OF MANAGEMENT

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Management Audit

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## UNIT 11 MANAGEMENT AUDIT

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### NOTES

#### Structure

- 11.0 Introduction
- 11.1 Objectives
- 11.2 Introduction to Management Audit
- 11.3 Scope and Concept of Management Audit
- 11.4 Answers to Check Your Progress Questions
- 11.5 Summary
- 11.6 Key Words
- 11.7 Self Assessment Questions and Exercises
- 11.8 Further Readings

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### 11.0 INTRODUCTION

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Management audit is an assessment of methods and policies of an organization's management in the administration and the use of resources, tactical and strategic planning, and employee and organizational improvement. Management audit helps in the evaluation of the effectiveness and suitability of an organization with the help of rules, procedures and methods. If the management audit is performed in the right manner in the organization then it helps the organization in achieving its goals and objectives. In this unit, you will learn about management audit, its importance and scope.

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### 11.1 OBJECTIVES

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

- Explain the concept of management audit
- Describe the scope of management audit
- Define the various advantages of management audit

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### 11.2 INTRODUCTION TO MANAGEMENT AUDIT

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When performing management audit in an organization, the auditors must follow four basic rules. These rules are as follows:

- **Serve your customers:** Auditors serve three basic types of customers, which are the auditee, the client and the organization. One of the main goals

## NOTES

of the auditor is to pass the audit. However, before passing the audits, the auditor must try to know whether the organization on which the audit is being performed is performing efficiently or not. In this case, an external auditor's perspective can be quite valuable. In the end, auditors must also serve the needs of the organization. The auditor can only assist the organization by determining whether the organization is working in the right manner in order to achieve its goals.

- **Use qualified people:** Auditors must possess certain skills and qualities so as to perform their jobs efficiently. Auditors in order to perform their jobs efficiently need certain emotional, intellectual and mechanical skills, which they can obtain by attending appropriate courses, reading books or observing others. In addition to conducting an audit, auditors must be familiar with the technical processes that are being used for the process of audit in the organization. Auditors must also be able to communicate well, both orally and in writing.
- **Measure against agreed criteria:** The auditor must not make his own rules while performing the process of auditing in the organization. The auditor, in order to measure the performance of the organization, must use the national and international standards such as QS-9000 and ISO 9001. One of the main challenges of the auditor is to obtain and become familiar with the many levels of requirements forming the basis for the audit.
- **Use facts to form conclusions:** Auditing is based on facts. These facts are the data that are drawn from the conclusions. An auditor must take into account all these facts while preparing the audit report. The auditor is an individual who assesses the efficiency of the management of the organization during management audit. The auditor also examines whether the plans and decisions taken by management have contributed to the achievement of organizational goals.

### Definitions of Management Audit

There is no definite meaning of the term, management audit. However, management experts have provided certain definitions of management audit. According to T.G Rose, 'Management Audit would concern itself with the whole field of activities of the concern from top to bottom, starting as always, where management control is concerned, from top, because we are primarily concerned with where the general management is functioning smoothly and satisfactorily.' William P. Leonard says 'Management Audit may be defined as a comprehensive and constructive examination of an organization structure of a company, institution or branch of Government, or of any component thereof, such as a division of department, and its plans and objectives, its means of operation and its use of human and physical facilities.'

In his book *Trends in Management Audit*, Campfield has defined management audit as 'an informed and constructive analysis, evaluation and series



of recommendations regarding the broad spectrum of plans, process, people and problems of an economic entity’.

In the *Accountant's Journal*, management audit has been defined thus:

Management Audit is a term synonymous to operations audit. It is a technique by which management can assess how effectively the executives and managers of the company plan, organise, direct, and control the use of men, money, materials, machinery, equipment and facilities to achieve corporate goals ... A technique for regularly and systematically appraising a unit striving for functional effectiveness against corporate and industry standards by utilising personnel who are not specialists in the area of study. The ultimate objective is to assure the management that its aims are being effectively carried out and/or conditions that require improvement are identified.

Leslie Howard in his book *Principles of Auditing* says that

Management Audit may be more specifically defined as being an investigation of a business from the highest level downwards in order to ascertain whether sound management prevails throughout, thus facilitating the most effective relationship with the outside world and the most efficient organization and smooth running internally.

Thus, management audit is basically an appraisal of the structure of an organization and the way in which it is organized. The appraisal in management audit is done by a group of experts and the main objective of this audit is to identify problems instead of solving them. In management audit, one of the functions is to identify the areas where improvement is required. Management audit examines the existing objectives of an organization. It also assesses the policies, which are followed in the organization for the fulfillment of its objectives. One of the tasks of management audit is to determine whether or not the policies are correctly followed in the organization.

E.H Morse has made the following observation with regard to management audit:

‘(T)he term financial auditing itself can properly embrace all that is contemplated by those who adopt the term management auditing.’

This observation has been made by Morse based on the argument that ‘all activities and operations of an organization have financial aspects’.

The concept of management audit is not well developed and is still in its growing stages. However, organizations all over the world have accepted management audit as an important process that needs to be followed routinely.

### The Development of Management Audit

There are various factors that have contributed to the development of management audit. These factors are as follows:

- **Size, scale and complexity of business operations:** The size, scale and complexity of business operations have grown because of organizations’ desire to search for and manufacture new products. The increasing size and scale of business operations has resulted in making the business activities

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complex. After a period of time, the expansion of business becomes difficult and unmanageable. In order to manage complexity in business operations, techniques such as Budgetary Control and Standard Control, Value Analysis and Operational Research have been adopted by organizations. Management audit has also been used by organizations to manage the human limitations of top management.

- **Need to improve productivity:** In order to achieve industrial development, organizations are trying to improve their productivity through economical utilization of resources such as national, human and capital. It is difficult to measure some resources while other resources can be easily measured. In the same way, it is also difficult to measure the efficiency of management. In addition, the results achieved through improvement in efficiency of management are difficult to estimate. Through management audit, an organization tries to improve the productivity of management, which is an important and indispensable part.
- **Granting financial subsidy:** The granting of financial subsidy to financially weak organizations by the government or financial institutions is not sufficient unless the causes, which made an organization financially weak, are removed. It is necessary to identify problems such as corporate planning deficiencies, structural defects in an organization and ineffective management control system to make an organization strong. To identify these problems, management audit is required. Various unidentified problems will keep on occurring if financial subsidy is granted without management audit.
- **Take-over bids:** A business organization can bid to take over another business organization. Similarly, government may also take steps to take over a business organization, which is weak. When taking over a business organization, the government or another business organization must keep in mind the following factors.
- **Societal need:** A business organization must function keeping in mind the needs of the society. It must not operate only to provide profit to the entrepreneur who owns the organization. It is in the interest of all social groups such as consumers, government and employees that an organization functions properly and runs in an efficient manner. The social groups have to be provided assurance by the organization that its top and middle management are working efficiently in the interest of these groups. A regular management audit in the organization can give such assurance.
- **Need for periodical check-up:** Management audit should be performed periodically. Problems such as defects in the organizational structure, poor leadership, internal friction and inability to make decisions may not be easily identified through statutory audits. Thus, the need for periodic management audit arises. The various problems that are faced by a management include:

- o Poor performance of a department.
- o Suspicion that a report on an important problem in an operational area is not in detail.
- o The need to determine areas in which cost savings and efficiency analysis will provide positive results.
- o A new business is set up or another business is taken over.
- **Foreign collaboration:** During collaboration with foreign companies, the foreign companies may want that a management audit of the units of the organization, with which it is collaborating, must be conducted. This will assure that funds provided by foreign companies are invested in proper growth and expansion of the organization with which the foreign company is collaborating.
- **Equity participation:** Financial institutions such as the Life Insurance of India (LIC), Unit Trust of India (UTI) and Indian Finance Corporation (IFC) participate in equity share capital of different organizations. These financial institutions may want the organizations in which they participate to conduct management audit so that these organizations do not suffer losses because of inefficient management.

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### Objectives of Management Audit

There are some objectives for which management audit is carried out in organizations. These objectives are as follows:

- Management audit must be done to appraise the management functioning at all levels in an organization.
- Management audit must be performed to identify the decisions and activities of management that have not contributed to the fulfilment of organizational goals.
- Through management audit, the objectives of the organization must be fully understood by individuals working at different levels in the organization.
- Management audit must help in ensuring that effective controls are provided to the management functioning at different levels so that the objectives set for the management are fulfilled and the operational plans are successfully implemented.
- Management audit must help in examining the plans, which are the future activities to be performed for the fulfilment of organizational goals.
- Management audit must assess the organizational structure. This means that management audit must examine how responsibilities are distributed in the organization.

**NOTES****The Advantages of Management Audit**

The various advantages of management audit are as follows:

- Management audit helps in collecting data such as accounting and economic data, which is needed by management of an organization for developing a policy framework.
- Management audit is useful in setting up a planning system. It also helps in assessing and enhancing the planning system.
- Management audit helps in setting up a system for establishing the objectives of the organization.
- Management audit helps to ensure that management of an organization gets the right information for making correct decisions.
- Management audit helps in determining whether or not management is using the information in an effective manner.
- Management audit is useful in designing and maintaining an efficient authority structure.
- Management audit helps in enhancing the management information system in the organization so that appropriate information can be provided to appropriate persons in management.
- Management audit is also useful in establishing an effective communication system.
- Management audit allows management of the organization to identify the key functions which will help in achieving profits.
- Management audit helps management of the organization in determining an effective criterion for measuring results.
- Management audit can be useful in avoiding wasteful utilization of resources in the organization.

**Check Your Progress**

1. What is one of the main goals of the auditor?
2. State one of the main challenges of the auditor.

### **11.3 SCOPE AND CONCEPT OF MANAGEMENT AUDIT**

Management audit is as wide as the management process. In other words, the scope of management audit and management process is the same. If scope means area of action, then right from the activities performed by persons in the top management down to the tasks performed by individuals in the bottom management are included in the scope of management audit. Currently, there is no definite

agreement on what concepts should be included in management audit. However, management audit includes concepts such as plans of objectives and methods of control.

### The Scope of Management Audit

Campfield has defined the scope of management audit based on the activities performed by persons in the top management down to those performed by individuals in the bottom management. This scope is as follows:

1. Studying the prescribed organization – Reviewing formal organization structure, personal inter-relationships, policies, procedures, information systems and flows, and decision centres in order to determine what management has established as optimum arrangements for running an entity.
2. Evaluating the ‘live-entity’ – Determining such problems as what operating people are really trying to accomplish, the schedules and routines they have established to attain objectives, and a measure of the results achieved in the light of predetermined goals and standards of performance.
3. Searching for Profit inhibitors – Uncovering poor organizational structuring and responsibility assignment, breakdowns in operations, programming and work flow, inadequate and ineffective communications, evaluation and measurement; and disclosing results that fall significantly below established standards.’

In management audit, all of the organization or the management processes performed in it are examined and appraised. In other words, management audit assesses in detail the working of the system used in the organization and its performance. The scope of management audit may be defined with the help of appraisal areas specified by the American Institute of Management. The important activities related to the appraisal areas performed during management audit are assessment of how correctly the business activities are planned and how performance is estimated. Another activity, which is important and related to the appraisal areas, is the organization of business activities. The main aim of management audit is to find out the suitability and compliance of the organization with the established objectives.

There are different management areas which are assessed during management audit and which help define the scope of management audit. These management areas are as follows:

- Appraisal of objectives
- Appraisal of organizational structure
- Appraisal of planning process and plans
- Appraisal of control
- Appraisal of organizational functions

### NOTES

**NOTES****Appraisal of Objectives**

The appraisal of objectives which can be organizational and functional is an important part of management audit. Objectives are basically the goals that need to be fulfilled by an organization by performing certain functions. The organizational objectives are those goals that are set for a particular organization. These objectives are fixed and cannot be modified. The comments given by the auditor conducting management audit of organizational objectives are discussed in a meeting. The organizational objectives may be revised to a small extent after the review in the meeting. Functional objectives are the goals that must be fulfilled to meet the organizational goals. The following points should be considered when auditing the organizational and functional objectives at the time of management audit:

- The assessment of organizational and functional objectives must determine whether or not the objectives are clear and understandable.
- The appraisal of organizational and functional objectives must determine whether or not the objectives are reasonable and cater to the requirements of the shareholders, employees, community and government.
- At the time of assessing organizational objectives, it must be kept in mind that these objectives are not changeable
- When assessing functional objectives, it must be considered that these objectives are categorized into groups such as output goal, system goal product characteristic goal and subsidiary goal. During management audit, it is determined whether the categorization of functional goals is efficient so that the organizational objectives are fulfilled.
- When assessing functional objectives, it is determined whether or not the objectives are well documented.
- When examining functional objectives, it is determined whether or not these objectives have been specified at the related operational levels.
- At the time of assessing functional objectives, it is determined whether or not these objectives are compatible with each other.
- When assessing functional objectives, it is determined whether or not these objectives are balanced properly.

**Appraisal of Organizational Structure**

The organizational structure helps management in managing the operations of the organization. In management audit, the way in which roles and responsibilities are assigned is assessed. When assessing the organizational structure, the following points must be considered:

- It is important that when assessing the organizational structure, it is determined whether or not the organizational structure is compatible with the goals of the organization.

- When assessing the organizational structure, it must be determined whether or not the responsibilities have been distributed properly among the employees of the organization starting from the top management to the people working at the lower levels.
- The assessment of the organizational structure must help in determining whether or not appropriate authority has been given to individuals for the proper discharge of their responsibilities.
- When examining the organizational structure, it must be determined whether a set of individuals working in the organization are reporting to one person or many persons.
- When assessing the organizational structure, it is important to determine whether or not the responsibilities of each management person are clearly defined in the organizational structure.
- At the time of assessing the organizational structure, it should be determined whether or not the structure is flexible enough to allow changes.
- At the time of assessing the organizational structure, it should be determined whether or not the structure is simple. It also needs to be determined whether the establishment of a specific organizational structure will be economical or not.
- When assessing the organizational structure, it should be determined whether or not the structure allows replacement of management persons with individuals involved in training.
- At the time of assessing the organizational structure, it should be determined whether or not the operational responsibilities are assigned properly to management.
- When evaluating the organizational structure, it should be determined whether or not proper authority is provided to each management person.

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### Appraisal of the Planning Process and Plans

Planning is necessary for achieving economic gains and motivating individuals to work properly in an organization. Based on planning, the future decisions are made in the organization. As soon as planning is done, the actions based on planning are performed. Planning is basically done keeping in mind the policies of the organization. It helps in achieving the organizational objectives. When assessing the planning process and plans, the following points must be kept in mind:

- When assessing the planning process and plans, the main trouble areas must be identified.
- When assessing the planning process and plans, it should be determined whether or not the process and the plans are helpful in utilizing the abilities and ideas of individuals working in the organization.

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- The planning process and plans must help in encouraging individuals working in the organization to work in such a manner that organizational goals are achieved successfully.
- When assessing the planning process and plans, it should be determined whether the purpose for which these plans and processes are developed is important or not.
- At the time of assessing the planning process and plans, it must be determined whether or not these plans are able to fulfill the organizational goals.
- When assessing the planning process and plans, it should be determined whether or not the plans have been communicated properly to the persons involved in actual operations.
- At the time of assessing planning process and plans, it must be determined whether or not the plans are helpful in proper delegation of authority.
- When assessing the planning process and plans, it must be determined whether or not the cost of implementing these plans is suitable for the organization.
- At the time of examining the plans, it must be determined whether or not the plans have been successful.

### Appraisal of Control

The appraisal of control is important for the successful attainment of the organizational objectives. When appraising control, the auditor who is conducting management audit, must determine whether the controls provided to management in the organization are sufficient and effective for the fulfilment of the management objectives. The auditor also determines the problems, which caused things to go out of control in a particular area. In appraisal of control, management audit must help in determining the policies which need improvement. The auditor must also keep the following points in mind when assessing control:

- When appraising control, it should be determined whether or not good managerial practices are being followed in the organization.
- While appraising control, it should also be determined whether or not scientific techniques are being followed in decision making.
- It should also be determined while assessing control whether or not the management is getting the appropriate information for making decisions.
- At the time of assessing control, it should also be determined whether management is using appropriate information and techniques for examining the available alternatives.
- When examining control, it should be determined whether or not the system contains a control technique at the time of implementing decisions.



- The assessment of control should also help determine whether a system for feedback exists or not. This helps in assessing whether or not a specific decision was correct.

### Appraisal of Organizational Functions

When auditing the management of an organization, the management functions and organizational functions are examined. Management functions are the functions performed by the management of the organization. These functions include planning, organizing and control. Organizational functions are the functions that are performed by the organization as a whole. These functions include production, distribution and personnel management. In management audit, the organizational functions are assessed to determine whether or not these functions are being properly performed so that the organizational objectives can be achieved. In management audit, the concern of the auditor is the manner in which an organizational function is performed rather than the results of the function. In management audit of the organizational structure, the production, purchase and distribution activities are examined.

#### Check Your Progress

3. What is the main aim of the management audit?
4. What are organizational objectives?

### 11.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. One of the main goals of the auditor is to pass the audit.
2. One of the main challenges of the auditor is to obtain and become familiar with the many levels of requirements forming the basis for the audit.
3. The main aim of management audit is to find out the suitability and compliance of the organization with the established objectives.
4. The organizational objectives are those goals that are set for a particular organization. These objectives are fixed and cannot be modified.

### 11.5 SUMMARY

- Management audit helps in the evaluation of the effectiveness and suitability of an organization with the help of rules, procedures and methods.
- Auditors serve three basic types of customers, which are the auditee, the client and the organization.
- One of the main goals of the auditor is to pass the audit.

### NOTES

## NOTES

- Auditors must possess certain skills and qualities so as to perform their jobs efficiently.
- The auditor must not make his own rules while performing the process of auditing in the organization.
- The appraisal in management audit is done by a group of experts and the main objective of this audit is to identify problems instead of solving them.
- The concept of management audit is not well developed and is still in its growing stages.
- A business organization can bid to take over another business organization.
- Management audit must be done to appraise the management functioning at all levels in an organization.
- Management audit is as wide as the management process. In other words, the scope of management audit and management process is the same.
- The appraisal of objectives which can be organizational and functional is an important part of management audit.
- The organizational structure helps management in managing the operations of the organization.
- Planning is necessary for achieving economic gains and motivating individuals to work properly in an organization.
- The appraisal of control is important for the successful attainment of the organizational objectives.

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## 11.6 KEY WORDS

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- **Auditor:** An auditor is a person or a firm appointed by a company to execute an audit. To act as an auditor, a person should be certified by the regulatory authority of accounting and auditing or possess certain specified qualifications.
- **Management audit:** Management Audit may be defined as a comprehensive and constructive examination of an organization structure of a company, institution or branch of Government, or of any component thereof, such as a division of department, and its plans and objectives, its means of operation and its use of human and physical facilities.
- **Management functions:** Management functions are the functions performed by the management of the organization. These functions include planning, organizing and control.

## 11.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

### Short-Answer Questions

1. What are the various factors that have contributed to the development of management audit?
2. Mention some of the objectives for which management audit is carried out in organizations.
3. What are the various advantages of management audit?
4. What points must be kept in mind when assessing the planning process and plans?
5. Why appraisal of control is necessary?

### Long-Answer Question

1. Discuss the four basic rules that the auditors must follow when performing management audit in an organization.
2. Explain the concept of management audit.
3. Describe the scope of management audit.
4. Identify the different management areas which are assessed during management audit and which help define the scope of management audit.

## 11.8 FURTHER READINGS

- Drucker, Peter. 2012. *Management*. United Kingdom: Routledge.
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### NOTES

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## UNIT 12 BUSINESS ETHICS AND MIS

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### NOTES

#### Structure

- 12.0 Introduction
- 12.1 Objectives
- 12.2 Meaning, Need and Principles of Business Ethics
- 12.3 Management Information System
- 12.4 Answers to Check Your Progress Questions
- 12.5 Summary
- 12.6 Key Words
- 12.7 Self Assessment Questions and Exercises
- 12.8 Further Readings

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### 12.0 INTRODUCTION

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In the previous unit, you learnt about management audit. Management audit is an assessment of methods and policies of an organization's management in the administration and the use of resources, tactical and strategic planning, and employee and organizational improvement. In this unit, you will define the meaning, need and principles of business ethics. This unit will also discuss the concept of 'Management Information System (MIS)'.

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### 12.1 OBJECTIVES

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

- Explain the concept of business ethics
- Define the need and principles of business ethics
- Discuss the concept of MIS

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### 12.2 MEANING, NEED AND PRINCIPLES OF BUSINESS ETHICS

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In a report discussing his observations on more than 100 attempts at organizational change, Kotter (1995) concludes that most failures are due to organizations' skipping or making mistakes at one of the eight necessary steps in the process.

1. Establishing a sense of urgency;
2. Forming a powerful guiding coalition;
3. Creating a vision;
4. Communicating the vision;
5. Empowering others to act on the vision;

6. Planning and creating short-term wins;
7. Consolidating improvement and producing still more change;
8. Institutionalizing new approaches.

Levy and Merry (1986) list crisis, transformation, transition, and stabilization and development as the four stages of organizational change. Sathe (1994) proposes a seven-phase model:

1. Shock the organization;
2. Break the old mind-set;
3. Make the tough decisions;
4. Demand performance;
5. Track progress;
6. Weed out those unwilling or unable to change; recognize and reward those willing and able to change;
7. Begin to build a culture of high competence and performance.

Sathe emphasizes the importance of avoiding the ‘vision trap’ (Langelier 1992), whereby the vision evolves into an excessively ambiguous goal that can distract the organization from its important task of building things people will buy.

While most change models take a linear form, Kaplan and Norton’s (1996) ‘Balanced Scorecard’ approach outlines a four-phase cycle for organizational change:

1. Clarifying and translating vision and strategy;
2. Communicating and linking objective and measures;
3. Planning and target settings;
4. Strategic feedback and learning (and back to the beginning).

The linear model described relates to the process of managing a single, major organizational transformation effect resulting in an organizational form qualitatively different from that existing previously. In contrast, the ‘cycle’ model appears to relate to an ongoing process of incremental change not involving major upheaval. Both types of models are valid and useful, but under different conditions; that is, depending on the type of change. The organizational transformation model seems most appropriate for guiding top–down change efforts, whereas the cyclical model might be used for bottom–up change or organizational development.

### **Organizational Culture and Ethics**

The scandal at Enron has made organizations realize the importance of ethics in their culture. The statement made by Joseph Bernardino, CEO of Arthur Anderson, during the congressional hearing that ‘America harbours a cottage industry of accountants and bankers devoted to circumventing audit rules,’ is a glaring example of depiction of evasion of ethics in our organizations.

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Business ethics is the application of ethical values to business behaviours. It applies to the code of conduct of an organization and, therefore, relates to its culture. Literature has suggested three sources of business ethics, that is, structure and culture of the organization, business category, and the culture of societal system that envelops the organization (Krishna and Tandan 2002). In a survey conducted by the national accounting firm Touche-Ross in 1988, 63 per cent of corporate executives believed that high ethical standards strengthened, rather than weakened a firm's competitive position (Neal 1993).

As an organization grows and achieves success, the members of the organization begin to take things for granted, and values and norms drop out of conscious awareness and tend to become basic assumptions. In such circumstances, any organization that promotes ethical norms will generate ethical behaviours from their employees and the one which does not do so becomes unethical. It has been mentioned earlier that the role of leadership is very important in shaping the culture of an organization (Sherwood 1988). If the leader or the top management exhibits correct behaviour, it helps to foster ethical behaviours in organizations. The role of ethical leadership has been recognized recently by Ciulla (1998). In a decision-making situation the choice made by the leader is governed by his ethical orientation. Few universally accepted principles that govern the issue of ethics and morality in organizations are fairness, honesty, integrity, trustworthiness, respect, and citizenship (Beauchamp and Bowie 1988; Kouzes and Posner 1995). These principles are the guideposts that influence their ethical conduct. Thus, ethical behaviours of managers in an organization influence and reflect its culture.

At Wipro, adherence to values while conducting business is like a religion. The company does not believe in compromising on quality. At times, the company does not do business with customers if it feels that it will not be able to do justice to the expectations of the clients in terms of quality delivery and service (Srinivasan 2003). Once, when the state electricity board refused to provide power until their demands of bribery were met, the company ran its own generators to complete the assigned tasks by incurring huge expenditure.

Ethical decisions taken by the leader become the defining moments for the organization (Srinivasan 2003). They have a profound impact on the culture of the organization as they are the real reflection of what an organization actually does rather than what it proposes to do. They give an impression to the employees and the market outside about the real culture of the organization.

### **Whistle Blowing**

Whistle blowing is a process of disclosing the illegal, immoral, unethical, and illegitimate practices of their employees to people inside or outside the organization. It happens because the whistle blower himself feels powerless to change such practices and, therefore, appeals outside the organization.

### Possible Risks Faced by the Whistle Blower

The whistle blower in an organization is not free from hassles. He or she is likely to face certain risks. A few of these are as follows:

1. Whistle blower is likely to be ostracized by other employees in the organization.
2. He/she may be isolated or threatened by the management.
3. His/her whistle blowing may follow dismissal, demotion, or relocation to a less favourable place.
4. He/she may be forced to resign from his job or change the statement.
5. Sometimes the whistle blower may himself be at fault thereby jeopardizing his/her as well as the organization's reputation for a very long time.

Organizations have to make attempts to promote ethical behaviours in their culture. They need to:

1. Choose the value system that governs the values of both employees and management to create the culture of the organization.
2. Be fair in deciding on the reward structure and promotional policies of the organization.
3. Be realistic. Do not promise something that cannot be delivered to the customer.
4. Promote a strong culture where members do not get swayed by immoral attractions.
5. Focus on imparting ethical training to the members of the organization so that they are familiar with the ethical procedural guidelines (Pruzan 2007).

Finally, it can be concluded that an organizational culture that promotes ethical behaviour is not only compatible with prevailing cultural values of its country but also makes good business sense.

### Understanding Cross-Cultural Dimensions

Hofstede (1980) conducted a study on the employees of a multinational company spread across different countries. His objective was to identify the similarities and differences across different national cultures. The situation was controlled so that it was not affected by the variation in the practices and the policies of the company's method of operation. Therefore, differences or similarities could be directly attributed to national cultures. As a result of this study, four dimensions of culture were identified and culture could be rated either high or low on these dimensions. These dimensions were as follows:

1. Power distance
2. Uncertainty avoidance

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3. Individualism–collectivism
4. Masculinity–femininity

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### Power Distance

Power distance is the extent to which a culture encourages superiors to exercise power over others in the organization. A culture which was rated high on power distance believed in exercising power over subordinates thus creating power imbalance between the seniors and the juniors. In such cultures, there was low trust between people, subordinates were passive, organizational structure was tall, and decision making was highly centralized. The countries in this category are Philippines, Hong Kong, India, Venezuela, and Brazil. In a culture which was ranked low on power distance, the relationship between the superior and subordinates was of mutual trust and joint decision making and action. The structure of the organization was flatter and there was decentralization. The examples of countries with low power distance were the UK, USA, the Netherlands, Australia, and Canada.

### Uncertainty Avoidance

The extent to which a culture encourages or discourages risk taking has been referred to as uncertainty avoidance. In countries with high uncertainty avoidance, the need for security was found to be high and there were strict laws, and stiff punishments for the deviants. The people of these cultures believed in working very hard for results, not changing jobs and not being sympathetic to disobedience. The examples included Greece, Portugal, Japan, Peru, and France. In cultures rated low on uncertainty avoidance, ambiguous situations were more tolerable and less importance was attached to adherence to rules. Managers were prepared to take risks and believed in their own self-competence. Denmark, India, Great Britain, Sweden, and USA were categorized as countries with low uncertainty avoidance.

### Individualism–Collectivism

This refers to the extent to which a culture comprises of individualistic features or believes in collective or group approach to deal with the situations around them. The individualist countries are focused towards inward concerns based on self and family with importance given to achievement and personal initiatives. The UK, Canada, and USA would be individualistic societies. In a collectivist culture, the organization is treated as family with greater loyalty and commitment towards it. The emphasis is on belonging to others, and on the power of group decision making. The examples of collectivist cultures are Singapore, Taiwan, and Mexico.

### Masculinity–Femininity

This dimension refers to the types of accomplishments valued by a particular culture. In masculine societies, the emphasis is on money, material, and ambition and there



is clarity about male and female roles in the society. People in this culture are encouraged to be individual decision makers. The examples of masculine cultures would include countries such as the UK, Germany, South Africa, and Italy. In cultures where feminism is present, emphasis is on cooperation, care, quality of life, and a very blurred distinction between the sex roles. There is more autonomy for the employees and decisions are taken collectively. The Netherlands and Scandinavia are the examples of feminine cultures.

Hofstede (1993) added another dimension to this list to differentiate between cultures. This was called as *long-term orientation*. This refers to personal thrift, perseverance, and adoption of traditions to the modern world. This orientation is the feature of the East Asian culture.

An international manager bears more responsibilities than his counterpart who has to operate only in one culture or country. The most effective international managers are those who are perceptive, rely on intuition, monitor situations carefully, and adapt well (Ratiu 1983).

The ideal qualities of an international manager are curiosity, flexibility, communication skills, assertiveness, team working, resistance, and self-reliance.

#### **Check Your Progress**

1. What is business ethics?
2. What is whistle blowing?
3. Mention the ideal qualities of an international manager.

### **12.3 MANAGEMENT INFORMATION SYSTEM**

No effective decision can be taken and implemented to solve any problem, unless the full information relating to the problem and its surroundings is made available to the management. Not only should this information be made available, but it must be made available quickly. The right information at the right time reduces the risk of wrong decisions. The proper collection, handling and providing the necessary information to the right manager as soon as possible could be a tremendous boon to the control function.

Management Information System (MIS) can be defined as, ‘a formal method of collecting timely information in a presentable form in order to facilitate effective decision making and implementation in order to carry out organizational operations for the purpose of achieving the organizational goals.’

A little more complete definition of MIS has been developed by the Management Information System Committee of the Financial Executive Institute.

An MIS is a system designed to provide selected decision-oriented information needed by management to plan, control and evaluate the activities of

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the corporation. It is designed within a framework that emphasizes profit planning, performance planning and control at all levels. It contemplates the ultimate integration of required business information sub-systems both financial and non-financial within the company.

### Information versus Data

Information must be differentiated from data. Data are facts that are not currently being used for decision making purposes. Typical data may include records about payroll, accounts receivables, data on personnel in personnel files, etc. Information, on the other hand, is processed data which is directly used in the decision making process.

### Value of Information

To be useful, the information must be *available*, in the desirable *quality* and *quantity* and at the *time* when needed. Each of these factors is explained further as follows:

- (a) *Availability*: All decisions are based upon information. The more accurate the information is, the better the quality of the decision. Sometimes, when the information is not available, the decisions can be made, but these decisions are highly subjective in nature and the results highly uncertain. The value of information is that it reduces uncertainty. The more relevant information is available to the manager for decision making, the more certain are the outcomes of such decisions.
- (b) *Quality*: Quality of information describes its compactness and accuracy. Inadequate, incomplete or incorrect information generally leads to decisions of poor quality. Accordingly the information should be precise and highly reliable and must deal with all the elements and angles that form the basis for decision making.
- (c) *Quantity*: Too much information is a big burden on management and cannot be processed in time and accurately due to 'bounded rationality'. Bounded rationality determines the limit of the thinking process which cannot sort out and process large amounts of information. On the other hand, too little information may leave out some important aspects that are necessary input to useful decision making.
- (d) *Timeliness*: Information must be available-when needed. Sometimes, some crucial decisions can be delayed because proper and necessary information is not available in time resulting in missed opportunities. Accordingly the time gap between the collection of the data and the presentation of the processed information to the decision maker must be reduced as much as possible. Additionally, this information must be passed on to the manager when a decision is required and not on a periodic and cyclic basis. For example, if the inventory report of a store is communicated to the management every week or every month, then an item could be sold out for

a week or a month before the management becomes aware of it in order to re-order the items.

### Why is MIS Important?

It is very important to set up effective management information systems for the following reasons.

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1. Most organizations have grown in size and complexity. This results in management being removed from the scene of the operations and hence must rely on the information provided to them by the line supervisors about any operational problems needing attention. The dynamics of the environment further adds to the complexity of organizational operations. Some of the continuously changing factors affecting the amount and type of information handled are as follows:
  - (a) *Economic*. These include sudden changes in the economic structure in any part of the world, sudden energy crisis, worldwide inflation rate, higher interest rates, unemployment rate and changes in GNP.
  - (b) *Technological changes*. These include new technical inventions in the area of micro-computers, use of satellites in communications, audio-visual and word processing developments, etc.
  - (c) *Social changes*. These include shifting of work-force from blue collar to white collar work-force, higher level of education, computer use at home, pollution problems, changes in consumer tastes, etc.
  - (d) *Political-legal changes*. Many new laws affecting the organizational systems have been initiated. These include privacy laws, liability laws, anti-monopoly laws, truth in lending, truth in advertising, minimum wage standard laws, etc.
2. The second reason for growth in MIS is the need to control management's decisions. More and more, the complex organizations are decentralizing their operations so that more information is needed about the operations of the unit managers. The performance of all units must be closely monitored and steps must be taken, if the performance is below expectations. This means that some new training programs need to be initiated. MIS can be effectively used for measuring performance and bringing about any necessary changes in accordance with the organizational goals and plans.
3. The third reason for the rapid growth in the field of MIS is the widespread use of computer capabilities. The computers are becoming less expensive to operate and have more capacity to store and retrieve more information. This has made information handling easier.

### Designing the MIS

A management information system basically is a set of procedures that are systematic and inter-related for gathering all pertinent data, processing this data into a

presentable form of information, so that the management can take necessary actions based upon this information. The system should be designed in such a manner so that:

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1. It supplies complete, accurate and timely data, so that it can be used for effective planning and decision making. This would result in elimination of problems associated with inconsistent, incomplete, and inaccurate data.
2. It identifies and quantifies the inter-related operational and performance variables and develops a relationship of these variables which can be projected to forecast future trends.
3. It facilitates control of present costs by merging the financial and production data to produce measures of performance which can be closely monitored.
4. It identifies the separate needs of all units of a decentralized organization in a cohesive manner so that these needs can be attended to without duplication and waste of efforts.
5. It requires that the data to be presented is presented in a summarized form and in a manner so that action can be initiated without further interpretation and analysis. This reduces the time as well as the volume of information required and only the exceptional issues will receive the attention of top management.
6. It provides flexibility so that the system can be changed and adapted to the change, when necessary.

### Developing an Effective MIS

Stoller and Van Horn indicate that since the purpose of the management information systems is to provide the necessary information for decision making purposes, the design and development of an effective MIS should start with an analysis of the types of decisions and types of supporting situations in which the managers generally get involved. These authors further suggest four steps in the process of MIS development. These are as follows:

- (a) Defining and analyzing various types of decisions that are made, both operational as well as those related to policies within the organization, to keep the organization going.
- (b) Determining the types of existing policies that influence or put constraints on the ways the decisions are being made or should be made.
- (c) Identifying and isolating the type of data that is relevant and needed for making these decisions.
- (d) Establishing a mechanism and a set of procedures for gathering such data and appropriately processing this data into useful information.

While there may be different approaches to designing an effective MIS, it is necessary to have a central location for processing all the information. This is a kind of Management Information Center. This center has all the hardware, software

and all technical help necessary to gather all information at one location and sort it out, so that the managers can find facts, and turn these facts into management information. This information will be used for decision making. Even though, with this information center, the managers themselves sort out the facts in order to formulate information, as against the information being given to them by their subordinates, the basic philosophy of MIS remains the same.

Some key elements and guidelines for an effective MIS may be considered as follows:

1. The decision system must be thoroughly analyzed. This would require the study of priorities of the decision maker and the levels of the decision makers, so that the appropriate information is directed towards the right decision maker and in order of needed priority. This would require that the operational managers have some input into the designing of MIS, requiring the managers to understand the structure of the system so that they can make any changes to include any specific activities or measures that they require.
2. Match the costs to the benefits derived out of the system. The design of the system should be such that the benefits outweigh the cost of collecting and presenting information. Thus the information must be relevant, precise and to the point. Depending upon the size of the organization, alternative means of presenting data should also be studied. However, it must be noted that an effective MIS will not only evaluate information for presentation so that unnecessary data is eliminated, but it will also summarize and condense information so that it can be quickly absorbed and a decision can be taken.
3. The system must be pre-tested and operators properly trained. If the system is not pre-tested before operations, then costly problems can arise and changes at that level may prove to be expensive. Also, the managers should be trained to understand the system, so that they can control it, if it becomes necessary. Only then can the system be most effective.
4. The information should be disaggregated and the similar decisions should be aggregated. All information should be stored in disaggregated data files. New data is added to the existing data in a given category as it is received. Similarly, the different areas of the decision makers should be identified with similar informational requirements, so that similar decisions can be grouped together for a single manager. This would avoid duplication and waste.
5. The actual mechanical methods for information processing are designed and the controls for the system are developed. This involves the establishment of steps for the purpose of collecting, storing, sorting, evaluating, transmitting and retrieving information. Additionally, a system of controls must be developed so as to identify and correct any deficiencies that might occur in the system.

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## MIS Failures and Mistakes

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MIS and specially the computer based MIS has been hailed as the most important contribution to the process of managerial decision making. However, a decision is as good as the information it is based upon. Hence some steps must be taken to improve upon all areas that provide input to the successful execution of MIS.

Some of the common misconceptions about MIS and some common mistakes and rouses of failure are as follows:

1. *More information is better for effective decisions:* This is a fallacy, since the information to be processed should be relevant and not more. Simply more information will overburden the manager (user) as he will not be able to absorb and then sort out all the data. This process may be further complicated since the manager may not know precisely as to what information he wants and hence he may ask for, 'all the available information.' This Problem must be seriously addressed so that the system is designed in such a manner as to assimilate pertinent information from all the data.
2. *Lack of managerial involvement:* Some of the companies who have; successfully utilized MIS have encouraged the manager-user to become involved in the design of their own systems. Also, the system itself must have the top management support. Since computers have become one of the largest single items of capital budgets with utility on all operating systems, it is highly desirable that these facilities be used in an optimal manner in order to save time and efforts.
3. *Failure of proper communication:* More communication does not mean better performance. Excessive inter-departmental communication does not necessarily establish a foundation for more effective decisions. While the managers must be provided with relevant current information, they do not always have to know that other managers and their divisions are involved with. In the other areas of communications the manager and the systems design specialist must work together. The manager must be trained to recognize the basic nature and utility of computers and the computer specialist must design the system specifically to provide information for decision making and not simply generate data for processing purposes. He should become familiar with identifying the information needs of the manager-user so that the communication between them becomes easy and useful.
4. *Computers cannot do everything:* It must be recognized that the computers are not the panacea for all ills. Even though computers have become highly sophisticated, capable of handling tremendous amount of data in a comparatively short time, it does not compensate for managerial judgement. Accordingly, computers can only be utilized as tools and complement the managerial decision-making and action.

5. *Human acceptance*: The success of the MIS program depends upon the acceptance and involvement of the personnel. User attitude is the important factor affecting the MIS development.

Organizational behaviourist, Chris Argyris suggests that there is a potential for conflict between human emotions and personal relations and MIS rationality and non-personal mechanization. People, both at high and low levels, resist the MIS application and try to actually sabotage it or work around it or aggressively fight it. This resistance may be due to economic threat to clerical workers because they fear losing their jobs or changes in their job patterns. It may be due to threat to managerial ego and loss of autonomy and control because the manager's job skills become less important and planning and control functions are largely taken over by new MIS.

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### Symptoms of Inadequate MIS

A list of such symptoms has been developed by Bertram A. Colbert who divided these symptoms into three distinct categories. These categories are as follows:

- (a) *Operational symptoms*: The operational symptoms relate to the physical operations and activities and the results of such activities within the organization. These symptoms include: capital expenditure overruns, unexplainable cost variances, insufficient knowledge about competition, inability of executives to explain changes from year to year operating results and uncertain direction of company growth.
- (b) *Psychological symptoms*: These symptoms deal with the outlook of the management and their attitude toward MIS. These symptoms reflect lack of concern on the part of management about the success of MIS program, possibly due to lack of experience in appreciating the value of MIS. Some of the symptoms are: surprise at financial results as if they were unexpected, poor attitudes of executives about the usefulness of information because it may conflict with their own experienced judgement, executives overburdened by excessive information to be sorted out while the system should sort it out before passing it on to the executive, etc.
- (c) *Report content symptoms*: These symptoms relate to the actual content and format of the information generated by MIS. These symptoms include: inaccurate information, lateness of reports, too little or too much information, lack of standards for comparison, failure to identify variances by cause and responsibility, multiple preparation and distribution of identical data, etc.

### Guidelines for Improvements in MIS

1. Involve top management in the design of Management Information Systems. This involvement would mean greater acceptance and commitment resulting in overall commitment to the program by all-level users.

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2. Building co-operation between designers and the users of the program. This cooperation will result in proper feedback on the quality of information being received so that any necessary changes in the design can be made. This cooperation will result in improvements in the effectiveness of MIS.
3. Develop a master plan. All planning should be adequate and projected as far into the future as feasible. The master plan should be developed with careful analysis of the current needs and forecasted needs. This plan will avoid any uncertainties associated with MIS development and serve to focus on MIS objective as well as control the progress towards these objectives.
4. Both designers and users are held responsible and accountable for the success of MIS on a cost-benefit basis. This accountability consistently reminds them to be cost conscious so that benefits achieved must exceed the costs incurred.
5. Consider the social and behavioural aspects of the systems design and implementation. All efforts should be made to ensure that all people accept it as an aid rather than a replacement' and that they do not resist it in any way.

### Check Your Progress

4. Define the term 'Management Information System (MIS)'.

## 12.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Business ethics is the application of ethical values to business behaviours.
2. Whistle blowing is a process of disclosing the illegal, immoral, unethical, and illegitimate practices of their employees to people inside or outside the organization.
3. The ideal qualities of an international manager are curiosity, flexibility, communication skills, assertiveness, team working, resistance, and self-reliance.
4. Management Information System (MIS) can be defined as, 'a formal method of collecting timely information in a presentable form in order to facilitate effective decision making and implementation in order to carry out organizational operations for the purpose of achieving the organizational goals.'



## 12.5 SUMMARY

- Business ethics is the application of ethical values to business behaviours.
- It applies to the code of conduct of an organization and, therefore, relates to its culture.
- As an organization grows and achieves success, the members of the organization begin to take things for granted, and values and norms drop out of conscious awareness and tend to become basic assumptions.
- Whistle blowing is a process of disclosing the illegal, immoral, unethical, and illegitimate practices of their employees to people inside or outside the organization.
- Managers in today's organizations have to think internationally because of the creation of a single market without borders and the requirements to work with people of all nationalities.
- Power distance is the extent to which a culture encourages superiors to exercise power over others in the organization.
- The extent to which a culture encourages or discourages risk taking has been referred to as uncertainty avoidance.
- An international manager bears more responsibilities than his counterpart who has to operate only in one culture or country.
- Management Information System (MIS) can be defined as, 'a formal method of collecting timely information in a presentable form in order to facilitate effective decision making and implementation in order to carry out organizational operations for the purpose of achieving the organizational goals.'
- An MIS is a system designed to provide selected decision-oriented information needed by management to plan, control and evaluate the activities of the corporation.
- Information must be differentiated from data. Data are facts that are not currently being used for decision making purposes.
- The amount of data available for processing for decision making would be impossible to handle by the decision maker without the vast information handling capability of the present-day computers.
- A computer has been defined, 'as an electronic tool capable of accepting data, interpreting data, performing ordered operations on data, and reporting on the outcome of these operations.'

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### 12.6 KEY WORDS

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- **Power distance:** Power distance is the extent to which a culture encourages superiors to exercise power over others in the organization.
- **Individualism–Collectivism:** This refers to the extent to which a culture comprises of individualistic features or believes in collective or group approach to deal with the situations around them.
- **Data:** Data as a general concept refers to the fact that some existing information or knowledge is represented or coded in some form suitable for better usage or processing.

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### 12.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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#### Short-Answer Questions

1. Write a short note on the process of whistle blowing.
2. What is the difference between an information and data?
3. Why is it important to set up effective management information systems?
4. Mention some of the continuously changing factors affecting the amount and type of information handled.

#### Long-Answer Question

1. Explain the concept of business ethics.
2. Discuss the concept of MIS.
3. To be useful, the information must be available, in the desirable quality and quantity and at the time when needed. Discuss each of these factors.
4. Describe the four steps in the process of MIS development.
5. Explain some key elements and guidelines for an effective MIS.

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### 12.8 FURTHER READINGS

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## UNIT 13 RECENT TRENDS AND NEW PERSPECTIVES IN MANAGEMENT

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*Recent Trends and  
New Perspectives in  
Management*

### NOTES

#### Structure

- 13.0 Introduction
- 13.1 Objectives
- 13.2 Strategic Alliances
  - 13.2.1 Core Competence
- 13.3 Business Process Reengineering
  - 13.3.1 Total Quality Management
  - 13.3.2 Bench Marking
- 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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Sometimes in order to develop a good information system that will serve the purpose of management even in the future, it becomes very essential to have a relook at the way business processes are conducted in a firm. The rationale for this is that the manner in which business is conducted changes with time and an information system that is designed over such out dated business processes would not provide any worthwhile value to managers. Business organizations are a continuing entity, but the products or services that they offer change with time. Even the manner in which it conducts business changes with time. New ways of doing business emerge over time. New markets emerge. New products and services emerge. New geographies emerge. New technologies emerge. All this changes the organization fundamentally. If however, the organization continues to engage with its customers (internal as well as external) in the same way as it had been doing in the past then it risks losing business and efficiency. It has to change its process to remain competitive. However, organizations cannot change individual processes on an ad hoc basis and neither can they change the processes in isolation. Concerted efforts are required and a complete scientific exercise is required to change processes of doing business and to ensure, at the same time, that the business does not suffer from this changed effort. In this unit, you will describe the various steps of a typical strategic alliance formation process. This unit will also explain the BPR model, TQM and the process of benchmarking.

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### 13.1 OBJECTIVES

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

- Describe the various steps of a typical strategic alliance formation process
- Explain the BPR model
- Identify the various principles of TQM
- Elaborate the process of benchmarking
- Discuss the major benefits of benchmarking

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### 13.2 STRATEGIC ALLIANCES

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Strategic alliances imply the association of more than one party aimed towards the attainment of specific objectives or fulfillment of essential business requirements, simultaneously maintaining organizational autonomy.

Partner companies offer strategic alliances with respect to certain resources, such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. These alliances are primarily based on cooperation aiming at a synthesis that profits the participating members more than individual efforts. Strategic alliances also involve technological transmission, access to informational and financial specialization and economic support.

Different terminologies present various types of strategic partnering, such as 'international coalitions' (Porter and Fuller, 1986), 'strategic networks' (Jarillo, 1988) and, 'strategic alliances'. Their meanings vary on the basis of the organizational context.

#### Strategic Alliance Formation Process

A typical strategic alliance formation process involves the following steps:

- **Strategy development:** This stage of strategy development constitutes the study of the alliance's scope, goals and rationale, highlighting the chief concerns and obstacles. This further involves the formulation of resource techniques for production, technology, and human resource. This involves synthesizing the goals of the alliance with the general organizational strategy.
- **Partner evaluation:** This requires an analysis of a potential partner's strengths and shortcomings, leading to creation of effective techniques in order to synergize different managerial styles. This stage also focuses on the preparation of suitable selection criteria and recognizing a partner's purpose for entering in an alliance and identifying the gaps in resource capability of a partner firm.

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- **Contract negotiation:** This stage focuses on predetermining if the parties have practical goals. Thus, competitive negotiation task forces are formed in order to define what each partner offers as well as to safeguard any proprietary information, address termination clauses, decide penalties for bad performance, and emphasizing the arbitration procedures involved.
- **Alliance operation:** This stage focuses on identifying the managerial commitment, locating the capability of the resources committed to the alliance, collaborating budgetary functions and resources with strategically aligned objectives, gauging and awarding alliance performance, and evaluating the performance and results of the alliance.
- **Alliance termination:** Termination of alliances constitutes of winding down the alliance.

### Advantages of Strategic Alliances

Strategic alliances offer the following benefits:

1. Encouraging partners to focus on functions that best match their capabilities
2. Helping partners in gaining knowledge and information through mutual cooperation and developing multiple competences
3. Providing varied resources and competence

### Types of Strategic Alliances

There are four types of strategic alliances, namely joint venture, equity strategic alliance (or minority investment alliance), non-equity strategic alliance (or direct cooperation alliances) and global strategic alliances.

#### Joint venture

Joint venture is a strategic alliance in which two or more firms create a legally independent company for sharing some of their resources and capabilities so that they can develop a competitive advantage. Of all the forms of strategic alliances, joint ventures are the most complex since they involve the creation of a separate legal entity from those of the alliance partners. The alliance partners own and control the new entity together. You can differentiate the alliance partners from other forms of equity alliance by the fact that they are created to achieve a specific, defined purpose.

Joint venture companies are normally seen in the manufacturing sector where economies of scale need a single manufacturing plant to be cost effective but the market can sustain a number of distributors of the product. As a result, competitors choose to form an alliance for creating a separate company that is jointly owned and controlled for the purpose of manufacturing goods. The goods are supplied to the alliance partners who then compete in the same market to distribute the goods through either wholesale or retail channels.

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### **Equity strategic alliance**

Equity strategic alliance or minority investment alliance is an alliance in which two or more firms own different percentages of the company they have formed.

This type of strategic alliance is an equity alliance and is used most frequently by young rapidly growing organizations. The young firm obtains capital from corporate investors by providing the corporate investor with a minority shareholding in their company.

The purpose of minority investment is less specific than in a joint venture and unlike a joint venture one partner retains control through their majority shareholding. Investors usually have a strategic interest in the growth and success of the company that extends beyond a simple return on investment.

### **Non-equity strategic alliance**

Non-equity strategic alliances or direct cooperation alliances are the alliances in which two or more firms develop a contractual-relationship to share some of their unique resources and capabilities to create a competitive advantage. Such alliances are normally formed to achieve operational efficiency or geographic expansion. They are non-equity alliances and their management structure is less formal than that of joint ventures. Direct cooperation does not create a separate entity or alliance partners obtaining a shareholding; it usually involves a contractual arrangement.

### **Global strategic alliances**

Global strategic alliances refer to working partnerships between companies across national boundaries and increasingly across industries. Sometimes such alliances are formed between company and a foreign government, or among companies and governments. A global strategic alliance is generally formed when a company wants to edge into a related business or new geographic market, especially one where the government discourages imports to protect domestic industry. The purpose of such alliance is to share in ownership of a newly formed venture and maximize competitive advantages in their combined territories. The cost of a global strategic alliance is generally shared equitably among the parties involved.

#### **13.2.1 Core Competence**

A core competence refers to a particular aspect that an organization views as fundamental to the organizational environment. Core competence needs to satisfy the following criteria:

- Unique to the organization and difficult for other firms to copy
- Advantageous to varied products and markets
- Contributory to the advantages offered for a dynamic consumer experience

A core competency may be of various kinds, such as technical knowledge, reliable process and/or close relationships with customers and suppliers. Further, it may constitute product development or culture, such as employee commitment.

Core competence primarily implies specific advantages offered by an organization in comparison to its competition, in terms of value additions unique to the industry. It involves organizational learning, coordination of diversified production skills and integration of varied technological streams.

An example of core competence of Walt Disney World - Parks and Resorts, reveals the following core competencies:

- Animatronics and Show Design
- Storytelling, Story Creation and Themed Atmospheric Attractions
- Efficient operation of theme parks

### **Core Competence and Competitive Advantage**

A core competence develops from a specific set of skills or production methods that bring value to the customer. Such competences allow an organization to access a wide variety of markets. Core competencies lead to the development of core products which further can be used to build many products for end users. Core competencies are developed through the process of continuous improvements over the period of time. If an enterprise wants to succeed in an emerging global market, it has to build core competencies. Core competences need to be integrated using strategic architecture in view of changing market requirements and evolving technologies. Management need to realize that stakeholders to core competences are an asset which can be used to integrate and develop the competencies. Competence building is the result of strategic architecture which must be enforced by top management so that its full capacity is exploited.

The management should develop the industry foresight needed to adapt to industry changes, and find out ways of controlling resources that will enable the company to attain goals despite restraints. Executives need to build up a point of view on which core competencies can be created for the future to revitalize the process of new business creation. Development of an independent point of view about tomorrow's opportunities and creation of capabilities that exploit them are the keys to future industry relationship.

Core competences are intangible resources of a company. They are difficult and challenging to achieve. It is even critical to manage and enhance the competences with reference to industry changes and their future.

#### **Check Your Progress**

1. Mention any two advantages of strategic alliance.
2. What are the four types of strategic alliances?
3. Define the term 'core competence'.

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### 13.3 BUSINESS PROCESS REENGINEERING

For an organization to change its process to remain competitive, some concerted efforts are required and a complete scientific exercise is required to change processes of doing business and to ensure, at the same time, that the business does not suffer from this changed effort. This scientific exercise of overhauling the process of doing business is called **business process reengineering (BPR)**. For example, we are all aware of the process of drawing money from banks. In earlier times, if we needed money, we had to deposit a signed cheque at the bank counter and the counter clerk would give a token then after some time he would announce the token number for the particular token holder to collect the cash. The time spent in between is used by some other clerks who physically check whether the signature on the cheque is that what is recorded against your account. If they get a perfect match, the counter calls the token number and you get your cash. Now, this process of checking of the signature on the cheque and comparing it against the officially recorded version to find out whether it is one and the same is easily done if an information system which is made available to the counter clerk. If the system is so designed that the clerk can himself check the authenticity of the signature by comparing it against the digital picture of the official signature of the account holder on a computer screen in front of him then this process can be done away with. The clerk can just take the cheque from the customer and check the authenticity of the signature on the system and if found correct can deliver the cash to the customer. We can see here that the process of cash delivery has been reengineered due to the introduction of technology. This change or rather improvement in the actual business process by the introduction of technology or otherwise is called re engineering and the process by which this is done is called BPR.

Sometimes BPR is resorted to even when there is no immediate trigger for change in the business process. Most BPR exercises are conducted when a system is being designed for the business. Sometimes, in order to develop a good information system, which will serve the purpose of management even in the future, it becomes very essential to have a relook at the way business processes are conducted in a firm. The rationale for this is the manner in which business is conducted changes with time and the information system designed over such dated business processes would not provide any worthwhile value to managers.

The principles around which BPR focus activities are performed are as follows:

- Focus on outcomes. In BPR focus should be on the outcomes rather than activities or functions. A broader view of the process is required.
- Keep users of process outputs/outcomes in the BPR team. This will ensure that real life issues are taken care of.



- Link parallel activities. Treat parallel activities by linking them instead of integrating them to get the full measure of the processing rather than having a simplistic view.
- Capture data once. This is very important as in most cases duplication of data capture happens. This can be avoided by capturing data at the source.
- Eliminate geographical segregation. This is another important concept. This means that a process may be physically distributed in different geographies but in cyberspace, this has little meaning. We must therefore create a virtual space incorporating this geographical diversity and then conduct BPR. This will help reduce a lot of complexity. BPR is sometimes seen as an algorithm of tasks to conclude that ensures better efficiency. Hence, models have been designed to perform BPR.

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### BPR Model

As is evident, BPR is a scientific exercise comprising of a set of logical micro tasks. Therefore, it may be worthwhile to define the BPR exercise in the form of a model.

- **Business objective definition:** In this the goals of the business are crystallized. The goals may be cost reduction, time reduction, etc. Essentially in this stage the BPR team must identify the major driver for the processes in the overall business perspective.
- **Process identification:** In this stage the critical process that helps in the attainment of the business objectives are identified and ranked according to their perceived importance in the overall business.
- **Process evaluation:** In this stage the process is examined in detail by first pictorial depiction the process (that may be done after actually passing through/seeing the process in action) and then finding out the areas that are redundant or can be made redundant after adequate use of managerial or technological intervention. In this stage the process is examined from a cost and time perspective which helps to understand the efficiency of the process. In most cases, this exercise results in process improvement.
- **Process specification:** In this stage process specifications are plotted in a process diagram.
- **Prototyping:** In this stage, a working model of the software that mimics the process is created in collaboration with the developers and the customers. This prototype acts as the basis for further development.
- **Refinement:** The feedback on the prototype is factored in the new design and a process of refinement of the prototype starts. This step may involve several stages of refinement to arrive at a fully functional system.

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- **Process improvement:** It is the activity of critically examining a process with the objective of making it more efficient. In most cases, it involves the shortening of the process, reduction of people handling the process, intervention of technology, changing the manner of doing tasks within the process, reduction of cycle time of tasks in the process and reduction in the cost of conducting the process. This is achieved by first examining the process and passing through it. Then a process map is created and bottlenecks and redundancies identified. These areas are then worked upon to make the process more efficient.

### 13.3.1 Total Quality Management

Total Quality Management (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 follows:

- 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.

### **Principles of TQM**

The principles governing the TQM system are as follows:

- **'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.

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- **Creating a culture of working through people's involvement:** To give effect to this principle, TQM system works on an 'internal customer' system, where each person and process can be linked as customer to each other in the chain of activities for production and delivery of goods and services. This system is proving to be at the core of TQM for involving all people into the process of customer satisfaction, and developing a customer orientation culture in the organization.
- **Continuous improvement of all processes and activities, leading to total customer satisfaction and competitive advantage:** This is a key measure for TQM; TQM believes that there is no end to improvement and it must be continuously pursued in an organization for performance excellence. Emphasis on continuous improvement in an organization makes people involved in work to think 'outside the box' and promote creativity and innovation in their work. Efforts for continuous improvement demand orientation to a new work culture, where continued thinking and working for improvements become a part of corporate life.
- **Training and development of people:** The TQM system believes that people are at the core of every process and activities of the organization. It is the people who drive the processes under the TQM system. Therefore, people should be trained and developed for understanding the process of TQM, the values and vision of the company, systems and tools of TQM and, above all, understanding the customer needs. This system is intended to empower and enable people of the organization for superior performance.
- **Empowerment and teamwork:** This is to provide people with the opportunity to learn, apply and practice their skills, creativity and knowledge. Team approach to work and the cross-functional process management are important aspects of TQM work culture. Under TQM system, cross-functional customer-focused horizontal processes are always run and owned by teams drawn for various connected functions, and the team is sufficiently empowered by the management for smooth and faster response to customer needs. Objective of this step is to eliminate bureaucracy and delay in decision-making, which otherwise can adversely affect the ability to serve the customers.

Much of these principles of TQM are based on various pronouncements of Deming, Juran and Crosby about how quality should be addressed and managed in industries. Principles are the guiding forces of a process. Therefore, application of these principles in their true spirit and purpose is important for success of total quality in an organization.

### 13.3.2 Bench Marking

Benchmarking is a powerful improvement technique and is being widely adopted by every type of industries and business. Benchmarking exercise could be carried out for every conceivable 'issue' in business, such as product quality, productivity,

process efficiency, process capability, service quality, customer handling, customer satisfaction, profit, cost, delivery cycle, financial results, etc. **Robert C. Camp** first coined the term *benchmarking* in 1980, while studying the improvement programme at Xerox Corporation in USA. According to Camp, the meaning of benchmarking is finding and implementing best practices in the business for attaining best level of performance. This does not imply that benchmarking is copying the best practice of an industry; it is about indentifying a specific issue in a company where improvement can be beneficial and then understanding ‘who is the best in the industry in that respect, what made that company different from others, and how they have achieved the superior practice’.

Thus, benchmarking process may require partnering with that company of superior practice, understanding their logic of working and practice, appropriately adopting the practice in one’s own organization as per its own specific situation and potential in order to achieve improvement and superior level of performance. Necessity to partner with external companies or identifying suitable source to partner with from within the organization’s other processes would depend on the subject matter and purpose of the benchmarking. The essence of benchmarking is the endeavour to analyse and understand the process, products or services of a world-class company (or a superior performer) in order to learn how it achieved those superior results, and then set up one’s own internal measures and steps to meet or surpass it. Juran described this as practice for managerial breakthrough. The purpose of benchmarking is to enable the organization to set in world-class practices in the company for much improved quality results, business results, customer confidence and competitive advantage.

The process of benchmarking makes an organization look outside to identify a business leader in the field for knowing and understanding the way to the leader has succeeded. Key to the success of benchmarking process is in understanding of *what, why, how and when* of the success story. It is a method of identifying new ideas and new ways of looking at things for improvements. As for example, ‘customer complaint resolution time’ of Rank Xerox Corporation was one time benchmarked across the industry for better services to customers by gathering ideas from their approach to customer problems, data acquisition system, analysis of the problem and empowerment of employees to take decisions.

Good benchmarking exercises produce two types of information: (i) quantitative data that can be used to measure current performance and set future targets (this is prevalent in most financial exercises for setting targets for return on investments) and (ii) qualitative information on the approach to design of products and services and adoption of ‘key success factors’ that explain how the benchmarked company became the leader in that function or business (this is prevalent in manufacturing and electronic industries for launching new products and service features). Since benchmarking is an improvement exercise, it can perhaps be best started with a PDSA type approach. It has the following components:

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1. **Plan:** Plan what is to be benchmarked, identify critical success factors, form teams, document processes and set performance measures to be achieved.
2. **Search:** Identify partners and establish partnership.
3. **Observe:** Understand and document the partner's process, procedures and practice.
4. **Analyse:** Identify gaps in performance and find out root causes.
5. **Adopt:** Choose 'best practice, understand the methods and practice for improvement, adapt to company's own situation, but do not copy as they are being done in the partner's company.

### Types of Benchmarking

Benchmarking may be divided into the following types:

- **Process benchmarking:** It is a type of benchmarking in which the initiating firm focuses its observation and investigation of business processes with the aim of identifying and observing the best practices from one or more benchmark firms.
- **Financial benchmarking:** It is a type of benchmarking in which financial analysis is performed and the results are compared to assess the initiating firm's overall competitiveness and productivity.
- **Benchmarking from an investor perspective:** It is a type of benchmarking in which benchmarking is extended to peer companies that can be considered alternative investment opportunities from the perspective of an investor.
- **Performance benchmarking:** It is a type of benchmarking which allows the initiating company to assess its competitive position by comparing products and services with those of benchmark firms.
- **Product benchmarking:** It is a type of benchmarking in which the redesigning of new products is done to upgrade current ones.
- **Strategic benchmarking:** It is a type of benchmarking which involves observing how others compete. Such benchmarking is normally not industry-specific.
- **Functional benchmarking:** It is a type of benchmarking in which the initiating firm focuses its benchmarking on a single function so that the operation of that particular function is improved.
- **Best-in-class benchmarking:** It is a type of benchmarking which involves studying the leading competitor or the company that best carries out a specific function.

- **Operational benchmarking:** It is a type of benchmarking which includes everything, from staffing and productivity to office flow and analysis of procedures performed.

### **Benchmarking Process**

Key factors for successful benchmarking are: (i) believing that there is a better way of doing things and there is a need for change and improvement from the present level, (ii) determining what should be improved and changed to make impact on company's performances, (iii) accepting the fact that another company's solution can be better and (iv) developing a vision of what it should be after the change. Translating these into actions broadly involves:

- Analysing the gap between own and other superior practices
- Understanding the prevalent 'best-practices' in industries to identify what must be changed or improved
- Identifying the most appropriate 'benchmarking partner' and studying their best practices methodology
- Implementing benchmarked practices at one's own unit to achieve set goals
- Reviewing of results and outcomes to determine 'where you are' after the change and what needs to be done further

Benchmarking process steps can be grouped under the cycle of plan–search–observe–analyse–adopt, as mentioned earlier.

In the step-by-step practice, this would mean following a systematic sequence of steps in following order:

**Step 1.** Identify the function to be benchmarked and form teams.

**Step 2.** Identify 'best-in-class' company in that function.

**Step 3.** Identify the key performance variables to measure and collect data.

**Step 4.** Establish benchmarking partnership with the chosen company and function.

**Step 5.** Ensure that types of data being collected are amenable to accurate comparison with the benchmark partner's data.

**Step 6.** Analyse and compare the data for understanding the measures taken by the partner.

In addition to the collection of quantitative data, identify if management approach differs between the companies and identify the critical factor that led to the success of the partner.

**Step 7.** Prepare enablers from the study of partner's technique and management actions.

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**Step 8.** Set new goals or levels of performance in the chosen function (benchmarked level).

**Step 9.** Establish functional goals for the benchmarking team and allow analysis of how the goals can be accomplished in the situations of the company.

**Step 10.** Allow team to make presentation and recommendations about how the company must act and improve to reach to the new goals. Make management review in terms of resources and facility requirements and finalize target and actions.

**Step 11.** Communicate and share the findings and goals with the people of the organization to build understanding, commitment and motivation to work for the goals.

**Step 12.** Develop action plan for implementation covering all related areas.

**Step 13.** Implement actions and monitor progress and share the improvement outcomes with the partner and people of the organization.

**Step 14.** Review and recalibrate the benchmarked goals and levels.

**Step 15.** Re-evaluate periodically the benchmarks to ensure that they are valid for current data and business situation and aimed at best targets.

Benchmarking is a strategic tool for quantum improvement in business results, which is the pressing need of a business facing competition. The improvement can only occur if companies understand the need to change, are willing to change, and have vision about what be the outcome after the change. Benchmarking sets a self-developed target that should be achieved by creative and analytical approach to the solution.

Major benefits of benchmarking are as follows:

- Adoption of new practices that help overcoming previous perception and barriers about possibilities and improvements, bringing about a change of outlook, work culture and approach for superior results
- Acquaintance with diverse and innovative approaches and process design to achieve 'breakthrough' improvement of performance
- Acceleration of the rate of growth and performance in the company
- Creation of a work environment that promotes employee involvement and creativity
- Establishment system of working through facts and figures and empowered team
- Achievement of competitive advantages due to superior performances

Significant benefit of benchmarking is in creating an attitudinal change for managing the business through diverse thinking, creative approach, and breaking the barrier of common mind set. When benchmarking practice is used correctly, it can considerably influence the operating practices of a company. Care is necessary



to correctly understand the process and objectives of benchmarking. It is not a quick fix for performance gap in a competitive environment. Benchmarking cannot work unless there is an environment of openness in the organization; creativity, commitment and involvement of people; and the recognition that there is always a scope to learn and improve. Therefore, it is no wonder that benchmarking requires a preconditioning of the organization by a strategy such as total quality culture to make the organization process-focused, people-driven and committed to continuous improvement for performance excellence. Benchmarking is not copying or imitating, it is about understanding the '*best-of-industry*' practices. If the organization is not prepared with cultural reorientation of total quality, an attempt at benchmarking may not be successful, and it may even lead to confusion and disruption in the existing practices. To reap the full benefits of benchmarking, organizations have to go through certain reorientation and cultural changes that are characteristics of a total quality organization. Otherwise, it may lead to the following problems:

- Failure to relate the benchmarked process improvement to the company's vision and strategic positioning
- Failure to get people involved and committed to benchmarking as a process
- Failure to perceive benchmarking as ongoing process for improvement and not a onetime effort
- Failure to visualize what the company should be after the implementation of benchmarking
- Likelihood of management resistance to change
- Failure to garner creativity and innovation in the organization, without which benchmarking efforts are seldom successful.

#### Check Your Progress

4. What is TQM?
5. What is the goal of TQM?

### 13.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The two advantages of strategic alliance are as follows:
  - Encouraging partners to focus on functions that best match their capabilities
  - Providing varied resources and competence
2. There are four types of strategic alliances, namely joint venture, equity strategic alliance (or minority investment alliance), non-equity strategic alliance (or direct cooperation alliances) and global strategic alliances.

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3. A core competence refers to a particular aspect that an organization views as fundamental to the organizational environment.
4. Total Quality Management (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.
5. The goal of TQM is customer satisfaction.

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## 13.5 SUMMARY

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- Strategic alliances imply the association of more than one party aimed towards the attainment of specific objectives or fulfilment of essential business requirements, simultaneously maintaining organizational autonomy.
- Strategic alliances also involve technological transmission, access to informational and financial specialization and economic support.
- Joint venture is a strategic alliance in which two or more firms create a legally independent company for sharing some of their resources and capabilities so that they can develop a competitive advantage.
- Equity strategic alliance or minority investment alliance is an alliance in which two or more firms own different percentages of the company they have formed.
- Non-equity strategic alliances or direct cooperation alliances are the alliances in which two or more firms develop a contractual-relationship to share some of their unique resources and capabilities to create a competitive advantage.
- Global strategic alliances refer to working partnerships between companies across national boundaries and increasingly across industries.
- A core competence refers to a particular aspect that an organization views as fundamental to the organizational environment.
- Core competence primarily implies specific advantages offered by an organization in comparison to its competition, in terms of value additions unique to the industry.
- Total Quality Management (TQM) is a transformational process that touches all aspects of managing a business and all people in the company.
- The TQM system believes that people are at the core of every process and activities of the organization.
- Benchmarking is a powerful improvement technique and is being widely adopted by every type of industries and business.

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## 13.6 KEY WORDS

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- **Strategic alliance:** A strategic alliance is an agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations.
- **Joint venture:** Joint venture is a strategic alliance in which two or more firms create a legally independent company for sharing some of their resources and capabilities so that they can develop a competitive advantage.
- **Equity strategic alliance:** Equity strategic alliance or minority investment alliance is an alliance in which two or more firms own different percentages of the company they have formed.
- **Global strategic alliances:** Global strategic alliances refer to working partnerships between companies across national boundaries and increasingly across industries.
- **Business process reengineering:** Business process reengineering is a business management strategy, originally pioneered in the early 1990s, focusing on the analysis and design of workflows and business processes within an organization.
- **Process benchmarking:** It is a type of benchmarking in which the initiating firm focuses its observation and investigation of business processes with the aim of identifying and observing the best practices from one or more benchmark firms.

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## 13.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

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### Short-Answer Questions

1. What do you understand by the term 'strategic alliance'?
2. What are the various types of strategic alliance?
3. Differentiate between equity and non-equity strategic alliances.
4. Identify the various principles of TQM.
5. What are the various types of benchmarking?

### Long-Answer Question

1. Describe the various steps of a typical strategic alliance formation process.
2. 'Core competences are intangible resources of a company.' Discuss.
3. Explain the BPR model.

4. Elaborate the process of benchmarking.
5. Discuss the major benefits of benchmarking.

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### 13.8 FURTHER READINGS

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