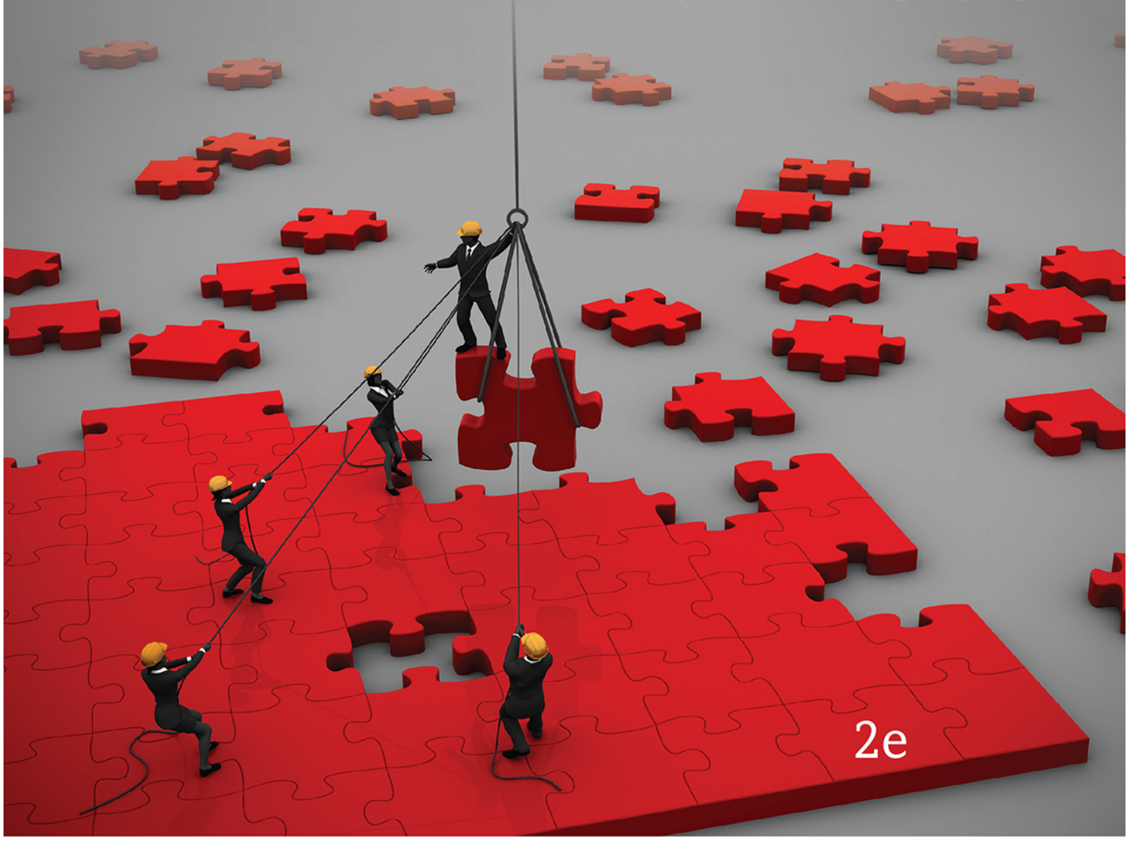
Principles of MANAGEMENT

Text and Cases



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Pravin Durai

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Principles of Management

TEXT AND CASES

Second Edition

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Pearson

To

The Lord Almighty

Contents

Preface

To the First Edition

In today's fast-paced, complex and culturally-diverse work environment, managers often find their existing knowledge inadequate and outdated. These managers need to learn, utilize and adapt modern management concepts and practices to achieve corporate and personal excellence. *Principles of Management* has been written in response to these increasing requirements of practising managers and students of management. This book enables future managers to get acquainted with current management concepts, practices and trends even before stepping into the actual work environment.

This comprehensive and reader-friendly book covers the entire field of management and enables individuals to perform their managerial functions with precision and confidence. To facilitate better, deeper and easier understanding of management concepts, each chapter in the book has several unique real-life examples, including the inspirational life stories of globally renowned managers. *Principles of Management* also satisfies the long-felt need of Indian students for a book with Indian case studies and examples, and highlights the challenges faced by managers in organizations from the developing world.

To the Second Edition

In a knowledge society, continuous learning is no longer an option but a basic necessity. Managers should keep themselves abreast of the changes and developments in their profession. However, managers have little time to understand, assimilate and absorb those changes and benefit from them. In this regard, this new edition will enable the practicing managers and the student community to keep track of the changes in various facets of managements and develop strategies to deal with those changes. The second edition of Principles of Management is a revised and updated edition with discussions on several new and important topics like Managing Sexual Harassment, Value Based Management, Employee Life Cycle, Green HR Practices and Employee Engagement.

In this edition, the chapters on staffing are thoroughly revised and consolidated into two main chapters keeping in mind the recent developments in Human Resource Management. The new chapters are Human Resource Management-Processes and Human Resource Management-Policies and Practices.

In second edition, new case studies are introduced in several chapters and as a unique initiative; solutions to these cases are made available in the companion site of this book. Though there can be no universally acceptable solution to the case studies, the well experienced managers have analysed the situations given in the cases and developed solutions based on their field knowledge and experience. These analysis and solutions to the cases will help the readers in properly understanding and analysing the case studies and finding their own solutions.

Organization

This book has 19 chapters, which help students and practising managers acquire insights into the different domains of management. Based on the functions and trends in management, these chapters are divided into seven parts. Each part has been given adequate weightage in terms of treatment and coverage to help readers gain detailed knowledge even on emerging areas of management; namely, change management, strategic management and international management. The seven parts and their objectives are:

Part I—Management: A Conceptual Framework familiarizes readers with the elements, evolution and environment of management and also elaborates on the social responsibilities of managers.

Part II—Planning, Decision Making and Forecasting focuses extensively on all activities connected with organizational planning.

Part III—Organizing enables readers to gain insights into the organizing function. The areas of discussion in this part include organizational structure and authority, responsibility and accountability.

Part IV—Staffing discusses the management of human resources (HR). This part includes Human Resource Management-Processes and Human Resource Management-Policies and Practices.

Part V—Directing elaborates on the important elements of directing; namely, communication, leadership and motivation.

Part VI—Controlling and Coordination discusses the topics that facilitate efficient control of the organizational resources. This part comprises chapters on controlling and coordination.

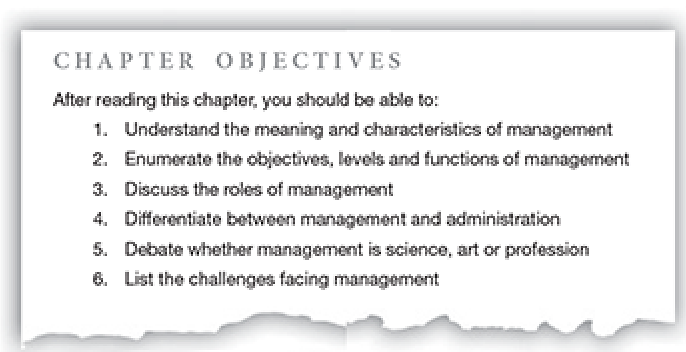
Part VII—Emerging Topics provides an insight into emerging areas of management such as change management and international management.

Features

Each chapter includes some unique features that help readers gain an in-depth understanding of the concepts in the chapter.

Learning Objectives

The learning objectives outline the main learning goals of each chapter.



CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning and characteristics of management
2. Enumerate the objectives, levels and functions of management
3. Discuss the roles of management
4. Differentiate between management and administration
5. Debate whether management is science, art or profession
6. List the challenges facing management

Chapter-opening Vignettes

Examples from the lives of inspirational Indian managers are used to illustrate complex management concepts.

India's Inspirational Managers

Mukesh Ambani is the chairman and managing director (CMD) of Reliance Industries Limited (RIL), the flagship company of Reliance Group. As a result of Mukesh's effective leadership and path-breaking management practices, RIL has now become the largest private-sector enterprise in India and also features in the *Fortune* 500 list of companies. The annual revenue of Reliance Group has also crossed USD 44 billion. For his stupendous performance as a top manager of this company, Mukesh has been conferred the best leader award by a number of globally renowned institutions. Mukesh's unique formula for management includes, among others, (i) establishment of an open system of management through the introduction of standard operating procedures (SOPs) and standard operating conditions (SOCs), (ii) adoption of a disruptive style of management as against the feudal style to easily meet the future challenges, (iii) investing in good talent and building competencies, (iv) demanding excellence and aiming for the best in everything, (v) diligence and foresight in planning and (vi) challenging the limits and never accepting defeat.

The success story of Mukesh Ambani is proof that the bold and innovative practices of managers can make a momentous difference to the fortunes of organizations. Keeping the accomplishments of Reliance's top manager in the background, let us now learn the basics of management in this chapter.

Real-world Examples

Numerous boxes highlight the unique management practices of Indian companies and provide students with real-world applications and perspectives.

Box 1.1 Leadership and Teamwork at BHEL

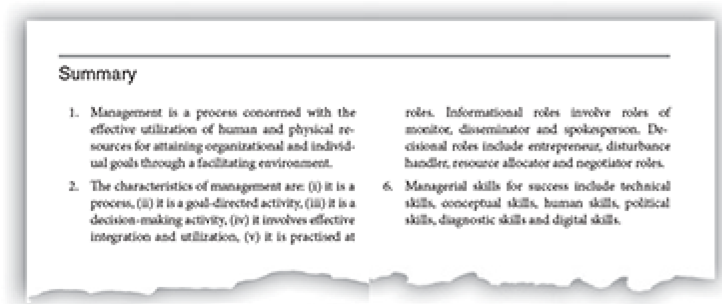
The role of managers is pivotal in influencing the attitude and behaviour of employees. Effective leadership calls for effective communication with and motivation of employees. In due course of time, effective leadership will result in the development of a positive work culture. Organizations may adopt different leadership styles and strategies for achieving employee cooperation. In this regard, leading power equipment manufacturer BHEL's strategy is worth mentioning.

BHEL encourages its managers to adopt transparent channels of communication, an open work environment, teamwork and respect for new ideas and thoughts to ensure the desired level of employee involvement. Similarly, new employees are encouraged by their managers to freely voice their ideas. Peers facilitate this process by extending their undying support and encouragement to these employees. The overall objective of managers at all levels of the management at BHEL is to convert the whole organization into a family through necessary freedom and support to all its members.

Source: http://careers.bhel.in/bhel/jsp/peoplefocus.jsp#pplfocus (last accessed in April 2014).

Summary

The summary at the end of each chapter recapitulates the key topics discussed in the chapter.



Summary

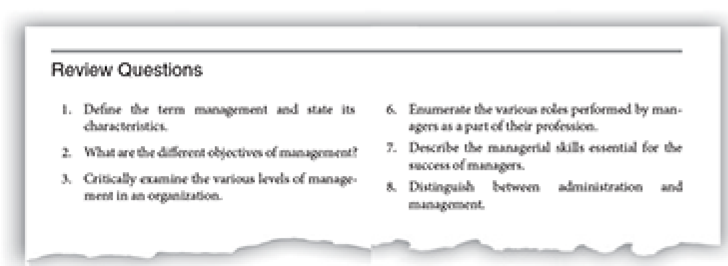
1. Management is a process concerned with the effective utilization of human and physical resources for attaining organizational and individual goals through a facilitating environment.
2. The characteristics of management are: (i) it is a process, (ii) it is a goal-directed activity, (iii) it is a decision-making activity, (iv) it involves effective integration and utilization, (v) it is practised at

roles. Informational roles involve roles of monitor, disseminator and spokesperson. Decisional roles include entrepreneur, disturbance handler, resource allocator and negotiator roles.

6. Managerial skills for success include technical skills, conceptual skills, human skills, political skills, diagnostic skills and digital skills.

Review Questions

Review questions at the end of each chapter help students gauge their understanding of the concepts in the chapter.



Review Questions

1. Define the term management and state its characteristics.
2. What are the different objectives of management?
3. Critically examine the various levels of management in an organization.
6. Enumerate the various roles performed by managers as a part of their profession.
7. Describe the managerial skills essential for the success of managers.
8. Distinguish between administration and management.

Case Study

A detailed case study along with discussion questions at the end of each chapter replicates real-life situations faced by managers and enables readers to correlate theoretical topics to actual practice.


Case Study

Clash of Ideologies at Birla Textiles Limited

Birla Textiles Limited was founded in 1966 in Mumbai to produce polyester fabrics. It manufactured a variety of products including men's wear, women's wear, kids wear and sportswear. This company grew gradually over a period of time and today has presence in almost every part of the country. It has 20,000 employees and seven factories. The founder chairman of this company, Motilal, upheld certain beliefs on management. They are: (i) managers at all levels must plan and work towards steady progress and strictly avoid dramatic actions and activities; (ii) structure should always be hierarchical and decisions must conform to such hierarchy; (iii) managers, especially those at the top, must adopt a "hands-on" approach in the sense that all major decisions must be personally vetted by them before being finalized; (iv) managers must always show respect for heritage, i.e. a respect for the past; (v) development of employee loyalty and sincerity should be the cornerstone of any human resource management activity and (vi) major decisions must be taken only one at a time.

Motilal has always been proud of his management philosophy and strongly believed that these beliefs and ideas contributed in no small measure to the success wisdom and orthodox practices of the management. A staunch believer in radical management practices, Jamanlal felt that the conventional style of management has little relevance to the present globalized era and one ought to be a risk taker to achieve a quantum leap in the scale and performance of an organization. He thus sought all his managers to think and plan "big" so that the company moves to a "spectacular progress" trajectory from a "steady progress" mission.

Jamanlal was also working towards abandoning, circumventing or completely reworking on the old managerial philosophy, policies and practices of Birla Textiles Limited with the intention of reinventing them and building an altogether different company. His proposal to adopt a disruptive style of management to change the status-quo got mixed response. One section of managers comprising mostly the aged and experienced viewed his moves with suspicion and described them as unwanted, unsafe and too adventurous, while another section dominated by highly educated but young managers applauded them and felt that they were long overdue and appropriate for the future.

Questions

1. How do you view the beliefs, attitude and actions of the new chairman, Jamanlal?

Supplements and Media Resources

The resources are available for download at www.pearsoned.co.in/pom2edurai

Acknowledgements

I would like to express my sincere thanks to all those who helped me in the fruitful development and promotion of this book. Those who worked with me in the second edition of this book deserve my special thanks. I gratefully acknowledge the Indian and foreign business organizations whose websites provided wealth of information useful for enriching the theoretical content of this book with real-life examples.

I profusely thank Anil Kaushik, Chief Editor, Business Manager Magazine for permitting me to use the case study solutions published in the magazine. I wholeheartedly thank the corporate managers Mihir Gosalia and Bhaskar Dhariwal for writing the solutions to my case studies.

I owe my debt of gratitude to all the reviewers for their critical comments and brilliant suggestions which greatly helped me in fine-tuning this book.

I record my special thanks to the Jesuit management of the 175 year old St. Joseph's College (Autonomous), Tiruchirappalli – a special heritage status college, for their support and encouragement which greatly helped me to write this book.

I wish to thank my wife Pramila Pravin and my children Felix Ashwin and Sherine Roveena in a special way for their abundant love, care and affection.

Finally, I express my profound sense of gratitude to Pearson Education for its unstinted support and also for publishing this book. I place on record my deep appreciation to Pradeep Kumar Bhattacharjee for the timely guidance and useful suggestions given at every stage of this book development process.

Pravin Durai

About the Author

Pravin Durai is Director, Pondicherry University - St. Joseph's College MBA Twinning Programme at St. Joseph's College (Autonomous), Tiruchirappalli. He was earlier the Dean of School of Management Studies of St. Joseph's College, Tiruchirappalli. At present, he is a member of the Board of Studies for M.Com. courses at Bharathidasan University. He was a visiting faculty at the Tiruchirappalli Branch of the Southern India Regional Council of the Institute of Chartered Accountants of India (ICAI) for over a decade. Dr Durai holds master's degree in commerce and business administration and a Ph.D. in organizational behaviour.

In his teaching career spanning over twenty eight years, Professor Durai has guided the research conducted by ten doctoral and 45 M.Phil. scholars. He has also published many articles and case studies in reputed journals and carried out UGC funded research projects on HR and ethical practices of manufacturing firms across Tamil Nadu. Dr Durai is the author of Human Resource Management published by Pearson Education, the first edition in 2010 and the second in 2016. He attended a two-week immersion programme on the Fundamentals of American Higher Education at Concordia College, New York, USA on invitation. He has vast experience in conducting government sponsored training workshops for young entrepreneurs of Tamil Nadu.

PART I:

Management—A Conceptual Framework

CHAPTER 1

Introduction to Management

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

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India's Inspirational Managers

Mukesh Ambani is the Chairman and Managing Director (CMD) of Reliance Industries Limited (RIL), the flagship company of Reliance Group. As a result of Mukesh's effective leadership and path-breaking management practices, RIL has now become the largest private-sector enterprise in India and also features in the *Fortune* 500 list of companies. It has a turnover of nearly USD 66.8 billion and a net profit of over USD 3.9 billion. Mukesh is the only Indian to be featured on Forbes Global Game Changers List (2017). Mukesh strongly believes that growth is a way of life for an enterprise and that it has to grow at all times. Mukesh's unique formula for management includes, among others, (i) establishment of an open system of management through the introduction of standard operating procedures (SOPs) and standard operating conditions (SOCs), (ii) adoption of a disruptive style of management as against the feudal style to easily meet the future challenges, (iii) investing in good talent and building competencies, (iv) demanding excellence and aiming for the best in everything, (v) diligence and foresight in planning and (vi) challenging the limits and never accepting defeat.

The success story of Mukesh Ambani is proof that the bold and innovative practices of managers can make a momentous difference to the fortunes of organizations. Keeping the accomplishments of Reliance's top manager in the background, let us now learn the basics of management in this chapter.

Introduction

Every organization requires talented and committed managers to ensure success and stability in its business operations. Managers are needed to design, develop and maintain an organizational environment that encourages both individual and group performance and cooperation. Managers also provide good leadership and definite direction to their subordinates, which enable them to fulfill the goals of the organization. Thus, every organization, whether big or small, public or private, profit or service-oriented, should have managers to manage its operations. Managers usually perform at higher, middle and lower levels of an organization.

What the managers do as a part of their job is usually known as management. All managers perform certain management functions for effectively coordinating, and supervising the activities entrusted to their subordinates. These fundamental management functions are planning, organizing, staffing, leading (also called directing) and controlling. To be successful in their work, managers need to possess different managerial skills such as leadership skills, team-building skills, communication skills, and motivational skills. However, the skills and attributes required for effective management and goal accomplishment must be updated and upgraded constantly. This is because managers have to work in a constantly changing environment characterized by rising competition, changing technologies and an increasingly assertive workforce.

The primary purpose of any management is to create an internal environment suitable for the members of the organization to perform their jobs efficiently and effectively. The internal environment is normally made up of factors such as the organization (including organizational culture, structure and control system), its employees and the physical resources.[1] The internal environment so developed by the management may enable or disable its efforts to accomplish the goals of the firm. An enabling environment would help managers to create surplus in their operations while a disabling environment could become an obstacle to achieving success. Certainly, the surplus or deficit arising out of resource mobilization and utilization by an organization is an indicator of its managerial efficiency.

Meaning of Management

Though the term management encompasses the physical as well as human resource management of a firm, it is primarily concerned with the latter. Indeed, management is all about managing people effectively and dealing with people-centred problems professionally. Managers need to lead, inspire, direct and decide on matters relating to employees in a way that facilitates the accomplishment of organizational goals. In brief, management involves, "getting things done by other people."[2] In this context, we shall now see a few definitions of management.

Definitions of Management

"Management is the process of planning, organizing, leading and controlling the work of organization members and of using all available organization resources to reach stated organizational goals." —James A. Stoner, *et al.*[3]

"Management involves coordinating and overseeing the work activities of others so that their activities are completed efficiently and effectively." —Stephen P. Robbins.[4]

"Management is the process of designing and maintaining an environment in which individuals working together in groups efficiently accomplish selected aims." —Harold Koontz and Heinz Weihrich.[5]

"Management is the process consisting of planning, organizing, actuating, and controlling, performed to determine and accomplish the objectives by the use of people and resources." —George R. Terry.[6]

“Management is the process undertaken by one or more persons to coordinate the activities of other persons to achieve results not attainable by any one person acting alone.” —Thomas N. Duening and John M. Ivancevich.[7]

In simple terms, we may define management as a process concerned with the effective utilization of human and physical resources for attaining organizational and individual goals through a facilitating environment.

Characteristics of Management

Based on the definitions given in the preceding section, we may list out the characteristics of management as follows:

- Management is *a process* involving a series of activities. It involves performance of certain functions and activities, such as planning, organizing and directing, by the managers.
- It is a *goal-directed activity* as the accomplishment of goals is the primary consideration in determining the activities of the managers. Thus, all the managerial activities are decided and guided by the definite goals and objectives of the firm.
- Management is principally a *decision-making activity* as it often involves the evaluation of available alternatives to deal with specific problems and the selection of the best alternatives to resolve them.
- Management involves the *effective integration and utilization* of both physical and human resources towards goal accomplishment. However, the thrust of management is on efficient management of human resources.
- Management is an extensive activity *practised at different levels* of an organization. Management is usually classified as top, middle and lower (first line) levels.
- It is *universal in character* as every form, size and nature of an organization requires management to manage its affairs. As such, management is applicable to organizations performing business, charity, military, sport, cultural and political activities.
- Management is a *dynamic activity performed continuously* in organizations. It shapes and reshapes itself depending upon the trends and developments in its environment.
- Management is a *group-based activity*. The presence of a group with at least two people is a prerequisite for management because the basic task of managers is getting work done through others.

The core function of management is to achieve efficiency and effectiveness in accomplishing the goals of the firm. Efficiency here implies obtaining optimum output or productivity from the reasonably minimum use of organizational resources. Similarly, effectiveness stands for doing only those activities that contribute to the accomplishment of goals in an efficient manner. In this regard, the management thinker and philosopher, Peter

Drucker, has identified a few major tasks of management. They are, (i) framing the organizational objectives and mission clearly (ii) achieving the required level of work productivity and (iii) ensuring adherence to social responsibilities.[8]

Objectives of Management

To properly plan and effectively execute the activities of an organization, it is important to have clear-cut, long-term objectives and short-term goals. In case of profit-making organizations, the primary objective of the management is making as much profit as possible. In contrast, the management of non-profit-making organizations would have “need satisfaction” as their focus. Every organization may be driven by one or more of the following objectives:

- To constantly attempt to accomplish the predetermined performance and productivity goals of the firm.
- To develop an environment that facilitates the minimum use of physical and human resources to achieve maximum output.
- To build a mutually beneficial relationship between the employers and employees. This relationship is essential to achieve effective coordination and cooperation in resource mobilization and goal accomplishment.
- To provide stability and growth to the operations of the organization through consistent innovations and quality enhancement initiatives. Organizations require stability and growth to build a desirable future for all its members.
- To work continuously towards the betterment of the society by satisfying the organization’s social responsibilities in an efficient and fair manner.

Management experts usually make a distinction between the performance of an organization and the performance of management. Organizational performance indicates how effectively and appropriately an organization determines its objectives. In this regard, managers help in achieving organizational performance by developing achievable objectives and minimizing any obstacles to the accomplishment of such objectives. For instance, when managers choose a goal that exactly reflects the market realities and customer requirements, it may be described as an appropriate goal for the organization. The ability of managers to “do the right thing” is usually the measure of organizational performance. Managerial performance, alternatively, is concerned with how efficiently the managers do their job and accomplish the work assigned to them. The ability of managers to "do things right" is the measure of managerial performance.[9]

Levels of Management

All managers perform certain administrative roles (decision making) and managerial roles (execution) as a part of their job. However, the extent of each role performed by these managers usually depends on their position in the management. The authority and responsibility of a job is also determined by the location of the job in the managerial hierarchy. The time and effort spent on managerial functions like planning, directing and controlling differs from one level of management to another. Typically, the management of an organization is classified into three categories as top, middle and front-line management. We shall now see them in detail.

Top Management

Managers who operate from the highest level of an organization are usually called top managers. These managers are generally few in number but vested with enormous powers. Top managers are entrusted with the overall responsibility of managing the whole organization. They make organization-wide decisions with long-term implications for the survival and growth of the firm. They are even empowered to set new directions for the organization. These managers usually spend more time on planning and directing, and less time on controlling. Further, they determine the nature of the relationship between the organization and its external environment. They also guide the firm's interactions with external individuals and institutions.

Positions like chief executive officer, president, vice-president, managing director, chief financial officer and chief operating officer are usually regarded as constituents of top management. Top managers often deal with the unstructured problems of the firm (for which no best solution is available) and develop policies and guidelines for resolving them. Such policies and guidelines convert unstructured problems into structured problems (for which correct solution is available). Top-level managers are normally accountable only to the owners who invest their resources in the organization. The board of directors who represent the interest of these owners ensure that the actions of the top managers enhance the general organizational interest.

Middle Management

Managers belonging to this category fall between the top management and front-line management. They receive goals, orders and directions from the top management and implement them through front-line managers. In this regard, each middle manager supervises a number of front-line managers normally within the related field. Managers at this level generally distribute their time fairly equally among planning, organizing and controlling. These middle managers transmit the organizational goals to the front-line managers and then direct, coordinate and control their efforts toward its accomplishment. Middle managers are more interested in the near future and plan their activities accordingly. Hence, they set short-term goals for their subordinates, which finally lead to the achievement of the long-term objectives of the firm.

Middle managers usually deal with the semi-structured and structured problems of the firm. Positions like regional heads, divisional heads, project leaders and directors of research wings are examples of middle managers. The increasing presence of teams and projects in organizations has greatly enhanced the role and relevance of today's middle managers.[10]

Front-line Managers

Front-line managers are usually positioned at the bottom of the managerial hierarchy and operate directly above the non-managerial employees. They serve as a liaison between the management and the workers. The primary responsibility of front-line managers is to execute the goals and plans entrusted to them by the middle management. These managers direct the activities of the workers and get the organizational goals achieved through them. They normally spend more time and effort on controlling and less time on planning. They are primarily concerned about accomplishing the day-to-day organizational activities such as the manufacture of goods and delivery of services.

Front-line managers are also responsible for motivating the employees at work and persuading them to observe the rules and regulations relating to safety and health. They deal with structured problems and resolve them by applying the guidelines and policies prescribed by the higher level management. These managers are usually known by titles such as supervisors, line managers, operational managers, sectional/departmental heads, office managers and shift managers.

Functional Management

Managers at each level of the organization will have to discharge certain functional responsibilities depending upon their specializations. According to Thomas N. Duening and John M. Ivancevich, function refers to those activities that the manager actually supervises consequent to their horizontal specialization of the management process.[11] Some of the important organizational functions are production, finance, marketing and human resources.

Usually, each manager is assigned a function and his or her designation —marketing manager, human resource manager and production manager—reveals the function performed by the manager. However, when managers assume responsibilities for all the activities of the entire organization or its branch office, then they become general or line managers. These managers then supervise their subordinates who perform different functions like marketing, finance, human resources, etc. Managerial activities like planning, organizing, directing and controlling are the same for both general and functional managers. Figure 1.1 shows the classification of managers based on their functions. We shall now see the rules and responsibilities of functional managers.

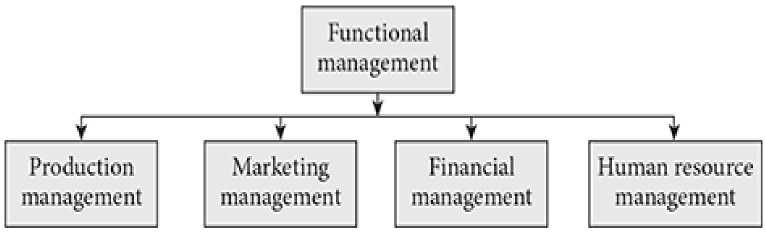

Figure 1.1
Classification of Managers

Production Management

Production management is responsible for all aspects of a production process. Production managers plan, supervise, coordinate and control the resources and activities required to produce goods in a cost-effective manner. Production managers oversee activities like production scheduling, staffing, machines and materials procurement, development and maintenance of quality standards and implementation of quality enhancement programmes. They coordinate production-related activities with other departments, supervise and motivate their subordinates and also review their performances.

Production managers usually act as the link between the top management and first-line managers including supervisors. They ensure that the goals and policies of the organization are implemented effectively. In a nutshell, they ensure that quality goods are produced within the prescribed time limit.

Marketing Management

Marketing management is concerned with planning, directing, coordinating and controlling the marketing activities that promote goods and services. Marketing managers are responsible for conceptualizing new product ideas, determining product prices, channel development and product promotion. They also undertake activities like estimating manpower requirements, training and motivating sales staff and evaluating their performance, conducting market research, product positioning and differentiation and managing customer relations.

The exact role and responsibilities of marketing managers are determined by the size of the organization, nature of the product or services and characteristics of the industry. In general, these managers focus on marketing programmes that meet the business goals of the organization and report to the top management.

Financial Management

Financial management involves the management of the finance department. Financial managers are responsible for the arrangement and allocation of funds. They are responsible for the implementation of a firm's financial goals and budgets and increasing the efficiency of the firm's financial operations. They fulfil the organizational goals by controlling the cost of funds and optimizing fund utilization.

Financial Managers also undertake activities like financial analysis and planning, fund and asset management, investment decision, payroll preparation and taxation. They also supervise preparation of financial reports such as the income statement and balance sheet. Further, these managers train and motivate their team members and also evaluate their performance. They liaise between the organization and the financial institutions that lend necessary funds.

Human Resource Management

The primary objective of human resource (HR) management is to ensure the well-being of the employees at work from their joining to their exit from the organization. HR management is a unique function because HR managers not only supervise the activities of their own department but also advise other functional managers on matters relating to labour management in their departments. HR managers usually act as liaison between the top management and the employees of different departments. Like other functional managers, they too perform managerial functions like planning, organizing, directing, controlling and coordinating with employees for their own departments.

HR Managers also perform certain specialized functions such as manpower planning, recruitment and selection, training and development, integration, performance evaluation, compensation fixation, maintenance of employee welfare, safety and health and separation of all employees. These managers also involve themselves in activities like maintenance of employee discipline, grievance identification and redressal, prevention and settlement of industrial disputes and promotion of industrial relations.

Management Process or Functions

Managers perform certain interrelated activities or functions while getting work done through their subordinates. Since these managerial activities are carried out in a systematic way to accomplish the goals of the firm, it is known as management process. In this regard, Henri Fayol identified planning, organizing, coordinating, commanding and controlling as the five primary functions of management.[12] However, the universally accepted basic managerial functions performed for organizational goal accomplishment are planning, organizing, leading (directing) and controlling (see Figure 1.2).[13] Let us now discuss them briefly.

Planning

Planning helps an organization in formulating clear-cut objectives and determining the best course of action for achieving them. It involves steps such as the analysis of the existing environment, forecasting the future scenario, formulating specific objectives and goals, and determining the resources and activities required for goal accomplishment.

Planning is generally considered to be the foremost function in the management process because of its critical role in deciding the success of the organization. Planning is carried out by all managers at all levels. It forms the basis and provides direction for other managerial functions such as organizing, directing and controlling. This is because the accomplishment of organizational goals is the ultimate purpose of all managerial functions.

Planning may initially cost the organization in terms of time and resources but it can considerably reduce future uncertainties and difficulties in its operations. It enables the organization to predetermine the right mix of physical and human resources to achieve optimum operational efficiency. It also enables the employees to know in advance what is expected of them. This knowledge, in turn, can help them to work in a systematic manner to fulfil those expectations.

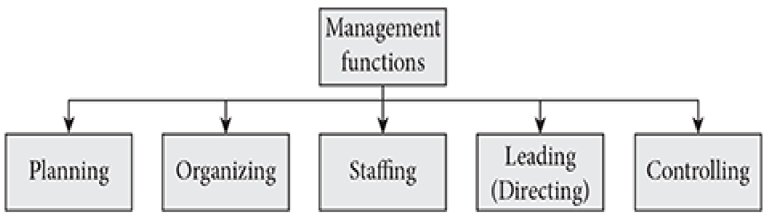

Figure 1.2
Management Functions

Organizing

Organizing is a vital step in converting plans into action by putting in place the necessary structure and resources. Organizing involves the arrangement and allocation of the necessary physical and human resources for achieving the goals of the firm. The specific steps involved in the organizing process are: (i) establishing the organizational structure, (ii) determining the work, authority, responsibility and accountability of each member in relation to the job, (iii) assembling and allocating physical, financial, informational and other resources required for task execution and (iv) developing conditions appropriate for the optimum utilization of available resources. However, each firm may require a unique organizational structure based on its goals and the availability of required resources.

Since the organizing process involves attracting, assigning and maintaining people for goal accomplishment, staffing usually becomes an integral part of the organizing function. However, due to the complexities involved in the mobilization, maintenance and motivation of the employees in the organization, many experts tend to view staffing as an independent managerial function. We shall now discuss the role and responsibilities of the managers in staffing.

Staffing

Staffing function is performed by all the managers when they involve themselves in activities related to human resources such as the selection and motivation of their subordinates. The guiding principle of the staffing function is the selection of the right person at the right time for the right position at the right cost. Managers may perform the staffing function jointly with the human resource managers or alone in the absence of an exclusive HR department.

Generally, the activities involved in staffing are recruitment and selection, training and development, performance evaluation, compensation and benefits fixation and industrial relations maintenance. Even large organizations with exclusive HR departments widely involve line managers in the staffing function. This is because of their good knowledge of the jobs, job holders and job environment in their own department.

Leading

Leading is also known by different terms like directing, supervising and guiding. Leading as a managerial function aims at positively influencing the behaviour of subordinates. By effectively leading, managers look to secure the best and willing cooperation of individuals and groups to achieve the organizational goals. Leading essentially involves activities like directing, communicating with and motivating the employees. Box 1.1 shows the leadership and teamwork practices at BHEL.

As good leaders, managers should influence, inspire and motivate their subordinates as they work. Managers should also establish an encouraging work environment that keeps the individual and group morale up. The efficacy of leadership usually depends on a manager's own personal traits and also the situation involved.

Box 1.1
Leadership and Teamwork at BHEL

The role of managers is pivotal in influencing the attitude and behaviour of employees. Effective leadership calls for effective communication with and motivation of employees. In due course of time, effective leadership will result in the development of a positive work culture. Organizations may adopt different leadership styles and strategies for achieving employee cooperation. In this regard, leading power equipment manufacturer BHEL's strategy is worth mentioning.

BHEL encourages its managers to adopt transparent channels of communication, an open work environment, teamwork and respect for new ideas and thoughts to ensure the desired level of employee involvement. Similarly, new employees are encouraged by their managers to freely voice their ideas. Peers facilitate this process by extending their undying support and encouragement to these employees. The overall objective of managers at all levels of the management at BHEL is to convert the whole organization into a family through necessary freedom and support to all its members.[37]

Controlling

Controlling is the last stage in the management process. While planning determines the future course of action for the firm, controlling keeps it on course. Controlling involves verification of the efficiency of the individuals and groups in accomplishing the organizational plans and goals by means of follow-up measures. It ensures that all the activities are carried out by the subordinates as per the plans formulated, instructions issued and procedures established.

Controlling usually involves the following steps: (i) developing standards of performance in the form of objectives and goals, (ii) measuring the actual performance of subordinates, (iii) comparing the actual performance with standards to assess the deviations and (iv) initiating necessary corrective and preventive actions in the case of negative deviation or deficit in actual performance.

The basic functions that describe managers' jobs in the organization remain unchanged despite tremendous changes in the environment. They continue to retain their relevance to the study of management and help the managers in effectively discharging their roles and responsibilities.

Managerial Roles

Managerial roles refer to the specific actions or roles performed by managers as a part of their job. Managerial roles indicate what managers actually do, what roles they play and how they share their time for different roles. The Canadian academician, Henry Mintzberg, after studying the work styles and time management of top managers identified 10 different but interrelated roles for them.[14] They are: figurehead role, leader role, liaison role, monitor role, disseminator role, spokesperson role, entrepreneur role, disturbance handler role, resource allocator role and negotiator role. These roles were then grouped under three major headings based on their common characteristics. These major roles are interpersonal role, informational role and decisional role. We shall now discuss these roles in detail. Figure 1.3 shows the various roles performed by managers.

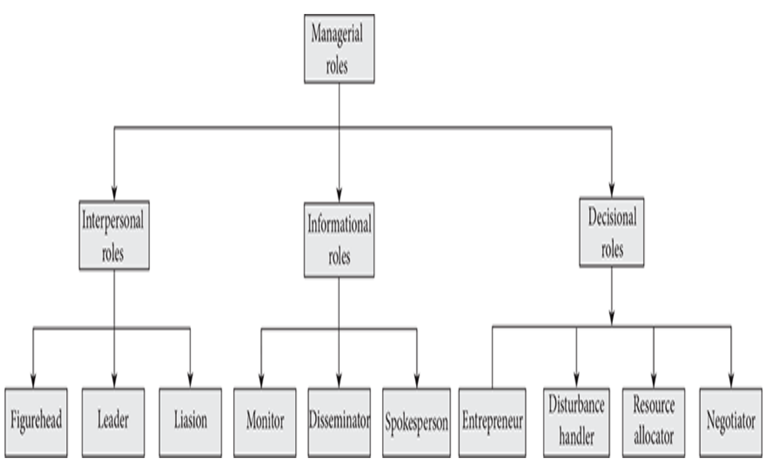

Figure 1.3
Various Roles Performed by Managers

Interpersonal Roles

These roles are mainly concerned with the interpersonal and social relationships of managers with their subordinates and others. This role performed by managers is ceremonial and symbolic in nature.[15] It facilitates managers in developing positive interpersonal relationships, which usually grow out of their formal authority. Roles like figurehead, leader and liaison are forms of the interpersonal role. We shall now discuss them briefly.

Figurehead—This indicates the role of managers as the representative of the organization in all matters of formality. Managers play this role at every level in some form, when activities of ceremonial nature are required. For instance, top managers represent the organization legally and socially to the people outside the firm. Similarly, middle- and lower-level managers act as representatives of their subordinates to their superiors and also represent the superiors to their subordinates. Some examples of the figurehead role are—a chief executive officer formally greeting trainees after their successful training programme, managers attending the wedding of their subordinates or a principal congratulating the winners of the school cricket "championship." This kind of activity normally lacks serious communication and important decision-making requirements on the part of the managers. Since this role is ceremonial and symbolic in nature, the position held by an individual as a manager counts more than the individual's personal identity (as who he or she is) in determining this role.

Leader—This role specifies the relationship between managers and their subordinates. It focuses on the effective coordination and control of subordinates' work by the managers. Depending upon the circumstances and requirements, managers may directly or indirectly control the activities of their subordinates. For instance, hiring and training of subordinates by managers may necessitate direct contact between them. In contrast, implementation of predetermined quality goals and time management at work may not require any direct interaction between managers and their subordinates.

The leadership role is shaped by the manager's official position in the firm and also by his or her individual identity.

Liaison—This role establishes contact for managers with persons outside the organization, department or work unit. Managers usually interact with the people outside their area of authority to complete the work assigned to their department or work unit. A production manager's interaction with stores managers or marketing managers is an example of the liaison role. A stores manager's call to a vendor to ascertain the exact date of arrival of raw material to the stores is also an example of the liaison role. Likewise, the top manager may use the liaison role to gather information about the industry and changes in government policies from external sources.

Informational Roles

The interpersonal roles of managers aim at gathering necessary information from different sources, whereas informational roles focus on processing and transmitting the information to others. As the name suggests, the informational role focuses mostly on information management activities like information sourcing, checking and disseminating. Thus, it involves the manager playing roles such as the monitor, disseminator and spokesperson. We shall now discuss them briefly.

Monitor—This managerial role involves gathering information on events or occurrences in the environment that affect the organization in one way or the other. This role is closely related to the interpersonal roles because interpersonal relationships, developed by the managers in the course of their work, are used for collection of information. Managers look for information on events, issues, opportunities and threats connected with their internal and external environments. Gathering information on the possible response of the competitors to the firm's new products, changes in the buying behaviour of the consumers or financial crisis in the business of a trade debtor are all examples of a monitor's tasks. The information gathered should be properly stored and carefully maintained.

Disseminator—This role involves sharing of special and significant information by managers with their subordinates. Managers may have gathered some useful facts and figures from outsiders. They may, in turn, transmit the same to a few internal persons in their organization and the department, in particular. However, managers often filter this information and disclose it in a selective manner to some privileged persons only. For instance, the top manager may inform the middle managers about the secret merger moves of their competitor. Similarly, supervisors may alert their superiors about the strike call likely to be made by the trade union.

Spokesperson—Managers assume this role when they have to represent the interest of their subordinates to their superiors and others. They can speak on behalf of their department or work unit to suitable persons both within and outside the organization. Often, managers assume this public relations role when lobbying is necessary for obtaining critical resources for the department. Specifically, when managers tell their superiors about the necessities of additional safety measures in their department, they act as the spokesperson for the department. Similarly, when top managers inform shareholders about the performance and future prospects of their organization, they act as the spokespersons of the organization.

Decisional Roles

In this role, managers make decisions based on the inputs received through interpersonal and informational roles. Interpersonal roles provide information to the manager, while informational roles process and store the same and finally the decisional roles make productive use of that information. Decisional roles are perhaps the most important roles performed by managers as their decisions determine the performance and progress of the organization. The decisional roles of managers are that of entrepreneur, disturbance handler, resource allocator and negotiator.

Entrepreneur—As a part of this role, managers usually design and initiate changes in their work unit to achieve desired improvements. Changes may involve the introduction of a new technology, a new work practice or new work culture. Generally, the information collected through the monitor role is used for performing the entrepreneur role. A few examples of the entrepreneur role are the introduction of new incentive schemes for motivating employees and offering additional cash discounts to trade creditors for their prompt payments.

Disturbance handler—In this role, managers determine their responses to the work-related disturbances occurring both within and outside their department. They assume this role whenever they face potentially serious disturbances. In such situations, they quickly evaluate all possible solutions to the problem and choose the best one to solve it. For instance, managers assume this role in situations like major machinery breakdown, strike call by workers, bankruptcy of a valuable credit customer or unexpected investigations by the law-enforcing agencies. At times, this role takes precedence over all other roles due to the urgency of the situation.

Resource allocator—In this role, managers distribute the firm's scarce resources among various individuals and groups under their control. This role enables them to decide who gets what and when. As a resource allocator, the manager decides the allocation of both physical and human resources necessary for achieving the organizational goals. They also supervise all the activities connected with resource allocation and utilization. A few examples of this role are allocating funds for research and development purposes, establishing a recreation centre for employees and developing additional plant capacity.

Negotiator—This role requires managers to conduct negotiations with individuals and groups to protect and promote the interest of their department or work units. This role is often interrelated to figurehead, spokesperson and resource allocator roles of managers. Since managers need to spend considerable time and resources in negotiations, they must be competent negotiators. As part of this role, managers may hold wage negotiations with union leaders, supervisors may address the grievance of a subordinates and top managers may seek environmental clearances for a new project from government officials.

All the roles discussed above are not only interrelated but also equally important in determining the efficiency of managers.

Managerial Skills for Success

Managers are responsible for performing a series of managerial activities such as planning, organizing, directing and controlling. Each of these functions involves decision making by the managers. Besides, managers often meet with situations or problems that require accurate and timely decisions. Almost every problematic situation requires a best possible solution in the form of a decision. Quite often, managers are compelled to make their decisions purely on the basis of their knowledge, experience, skills and abilities. Understandably, they must possess the necessary managerial skills that will enable them perform their jobs successfully. These managerial skills are essential not only for organizational success but also for the career success of the managers. In this context, we shall now discuss the skill requirements of managers for success in management.

Technical Skills

A technical skill is the ability to properly perform a specific job of a specialized nature. Organizations expect their managers to possess a set of technical skills necessary to perform their jobs efficiently. Technical skill does not refer to any high technological skills; instead, it refers to one's knowledge of the job and expertise in job-specific techniques and procedures. Work scheduling by production managers, analysis of marketing statistics by marketing managers, and cost and profit computation by financial managers are a few examples of this skill.

Technical skills are usually more important for lower-level managers because their jobs involve guidance and training of workers. Managers can command the respect and confidence of their subordinates and colleagues only if they have the proven technical skills.

Understandably, technical skills are major determinants for entry-level managers at the time of their recruitment. These skills are normally taught through formal education in schools and colleges or even through an organization's in-house training process. However, the importance of technical skills declines as managers go up the higher levels of management. At these levels, conceptual skills usually take precedence over technical skills due to the basic nature of the job. This is because the top managers usually take an overall view of the whole organization while making decisions and never restrict themselves to any specific work domain or unit.

Conceptual Skills

Conceptual skills enable managers to imagine and understand abstract ideas and situations and decide their responses. It is usually easy to visualize and understand physical and figurative items such as a bike or a pen. In contrast, abstract and non-figurative concepts like quality, ethical values, honesty, satisfaction and morale are difficult to be visualized. With conceptual skills, managers can analyse and understand how ideas are interrelated and also develop creative ideas. Conceptual skills that include creativity, concept formulation and problem identification are thus essential for managers, especially in decision-making activities.

Conceptual skills enable top managers to view the issues that affect the organization in proper perspectives and develop interrelated set of decisions. For example, conceptual skills are required for developing new organization-wide quality standards, merger schemes for the firm and new recruitment policies in the event of amendments to existing labour legislations. While making such decisions, conceptual skills enable managers to foresee the likely impact of their decisions on different aspects of the organization. Conceptual skills can be developed through the systematic acquisition of knowledge of the various factors that influence organizational activities.

Human Skills

Human skills enable managers to work well with their subordinates, peers, superiors and others. Certainly, human skills are crucial for managers as their jobs primarily involve getting things done through others. These skills help managers in securing the willing and voluntary cooperation of their group members. They also facilitate managers to effectively communicate with their subordinates and to successfully lead and motivate them. In due course of time, this skill can generate a positive attitude among the workers about their work, managers and the organization.

Human Skills help in maintaining industrial peace and harmony as managers can avert and resolve work-related conflicts through peaceful negotiations. These skills are normally acquired through an understanding of individual and group behaviour.

Political Skills

Political skills are useful for managers to gain knowledge of others at work and use the same to influence their behaviour such that the organizational and individual goals are accomplished.[16] These skills are useful means of acquiring the power necessary for effective management. Specifically speaking, these skills can be used to persuade group members, inspire confidence and mobilize support among them and direct their activities. These skills enable managers to decide when and how information is to be presented to gain desired results.

Political skills facilitate managers to exude self-confidence, improve interpersonal effectiveness and sense of personal security.[17] If properly and genuinely applied, Political skills can be a truly positive force for managers and organizations. However, these skills can only be a supplement to other managerial skills and not their replacement. Certainly, too much emphasis on the use of political skills by managers can harm the organization's interests.[18]

Diagnostic Skills

Diagnostic skills are helpful for managers in effectively choosing the best course of action for goal accomplishment. Diagnostic or analytical skills help managers in the better understanding of cause–effect relationships and also the problem-solving processes. Managers depend on their diagnostic skills in investigating the root cause of any problem and developing solutions. However, these skills are productive only when they are combined with other managerial skills such as technical, conceptual, human and political skills.[19]

Diagnostic skills are more important for higher-level managers, who often deal with unstructured and ambiguous problems with long-term implications.

Digital Skills

Digital skills are essential for managers to make well-informed decisions in the modern electronic environment. Paul Glister defines digital skill (or literacy) as “the ability to understand and use information in multiple formats from a wide range of sources when it is presented via computers.”[20] Digital skills thus include an operational knowledge of computers and telecommunications.

Digital skills enable the managers to perform wide and varied tasks in a faster and efficient manner. These skills are useful for managers in activities like human resource planning, budgeting, customer relationship management, supply chain management, enterprise resources planning, financial planning and reporting.

Management *vs.* Administration

The differences between management and administration are a topic of discussion among management experts. Different experts view the role and relevance of these concepts in different ways. For instance, a few management writers consider management and administration as identical concepts. According to them, these two are basically similar terms. Even if there are a few subtle differences between them, like in dictionaries, they have little or no relevance in the real world of business. But a majority of management experts view administration and management as two dissimilar concepts with meaningful differences in their characteristics.[21] British and American experts hold different views regarding the relative importance of these concepts. We shall now briefly analyse their viewpoints.

British management experts view administration as a part of management.[22] According to them, management in its totality is wider than administration. They believe that management is a broad term as it includes activities like planning, organizing, leading and controlling besides enterprise promotion activities. On the contrary, administration involves just goal setting and policy-making activities alone. Moreover, administration can resolve problems or issues affecting the organization just within the broad framework set by the management. Finally, administrative activities are carried out at the top level only, whereas managerial activities pervade through the entire organization. Management expert, Robert Heller, observes that “the difference between management and administration (which is what bureaucrats used to do exclusively) is the difference between choice and rigidity.”[23]

However, American management experts generally do not concur with the views of the British management experts. In their opinion, administration is broader than management in many aspects. Administration involves objective formulating and policy-making activities while management aims at shaping goals and procedures for accomplishing those objectives. All functions of the management must therefore be confined to the broad policies laid down by the administration. Further, the key activities performed at the administrative levels are planning and organizing, while controlling and employee motivation are central to management. Finally, administration is a top-level function while management is a middle-level and supervisory-level activity. Table 1.1 lists the basic differences between administration and management in detail.

Table 1.1 Differences Between Administration and Management

Administration	Management
It is basically a determinative function because it predominantly involves decision-making activities.	It is mainly an executive function as it is largely concerned with the implementation of decisions made by the administration.
Scope of administration is wider as it governs the entire system, i.e., the whole organization.	The scope of management is comparatively limited to any subsystems (a function or department or unit) of the organization.
Objectives and policies formulation are the top priorities of the administration.	Fulfilment of those objectives and plans within the policy framework is the priority of the management.
It is usually a top-level activity of an organization and remains above management.	It is generally a middle- and supervisory-level activity and remains above non-managerial employees.
Planning and organizing are the essential functions of administration.	Employee control and motivation are the important functions of management.
Conceptual skills are the key to successful administration.	Technical skills are vital for successful management.
It consists of people who act on behalf of the capital holders (i.e., owners) of the enterprises.	It usually consists of people who are professionals in their area of operations and are employed by the organization.
Administrative activities are influenced mostly by external factors like government policies and guidelines, social and economical developments, industry-wide developments and market trends.	Management activities are largely influenced by internal factors like organizational environment and culture.
The term administration is frequently associated with non-business enterprises like educational, military and government institutions.	It is mostly associated with business enterprises.

Management—Science or Art Debate

Is management a science or an art? This question has given rise to a lot of discussions among management experts and practitioners alike. Due to its inherent characteristics, management experts find it difficult to decide conclusively whether management is a science or an art. In this regard, a few experts claim management as a science while a few others argue that it is an art. Let us see the basis of their claims.

Management as a Science

The basic characteristics of pure science, such as physics or chemistry are as follows:

- Science must have a body of knowledge, which is logical, reasonable and rational.
- Scientific theory and inferences must be falsifiable. This means that these theories are capable of being tested and verified.
- Scientific experiments must be repeatable under similar circumstances. This means that the results of the study should be the same under identical conditions.
- Science assumes that the laws of nature are universal. This means that scientific principles, laws and observation are applicable in all circumstances without any limitations.
- Science requires constant efforts to attain objectivity.

With these characteristics in the background, we shall now see the arguments for and against management as a science.

Arguments for management as a science—Over a period of time, management has developed its own theory in the form of scientific principles and rules. Early management experts like Taylor, Max Weber and Henry Fayol have significantly contributed to the development of management theory. For instance, Taylor introduced the principles of scientific management and Fayol advocated the fourteen principles of management. Similarly, Max Weber discussed the administration of social and economic firms. These principles and rules aimed at achieving required efficiency in productivity in normal circumstances on a continuous basis.

At a later stage, efforts were made toward establishing management as a system science. In this regard, management experts like Singer, Churchman and Ackoff worked towards the creation of "a science of management that lives up to the standards of good science."[24] Churchman's social systems design and Ackoff's social systems science are cases in point.

As a result of these and other related works, managers are now able to utilize a systematized body of knowledge to tackle management problems and issues. They now gather information in the most objective manner, statistically analyse them and make decisions using decision-making techniques. They are now able to adopt scientific methods to solve recurring managerial problems, thereby making management eligible to be called a science.

Arguments against management as a science— Management discipline has equally strong reasons to reject claims that management is a science. For instance, unlike scientific theory, management theory cannot show up the same results every time it is used or tested. This is primarily because management has to deal with human behaviour, which is highly unpredictable. Thus, management cannot guarantee continuous success in its application, especially in social and economic organizations. In contrast, scientific experiments can produce the same results every time they are repeated because they deal mainly with non-living factors that can be kept constant. Moreover, managers often use their personal intuitions, past experiences and incidents in the decision-making process and this clearly contravenes the rules of science. Finally, management principles are bound to change continuously even on a day-to-day basis due to frequent changes in human behaviour.

Management as an Art

If organized knowledge is called a science, then practising such knowledge in the real world to achieve the desired result is an art. Management experts like Mary Parker Follet and Harold Koontz describe management as the *art of getting things done*. Management as an art involves application of managerial rules and principles as well as managers' abilities, experiences, wisdom and expertise in decision-making activities. Since managers often use their instinct, experiences and individual insight in making decisions, it may be apt to describe management as an art. Moreover, the success of managerial decisions is often determined by managers' efficiency in human relations, conceptual and time management skills.

The unpredictable nature of the human elements involved in the decision-making process makes management more of an art rather than a science. This is because the textbook knowledge may not be of much help to managers in handling different situations especially when the cooperation of subordinates and colleagues is important. However, it is not possible to improve the practices of any discipline without any improvement in its theory. This is equally applicable for management too.

In the absence of any organized knowledge for guidance, managers may be compelled to adopt a trial-and-error method for every managerial decision. Thus, science and art need not be mutually exclusive in making up management; instead, they should be complementary. The core elements of science and art; namely, education and experience are equally important for managers to achieve success in management. Understandably, many management experts now firmly believe that management is partly science and partly art. They compare science and art to management as just two sides of the same coin.[26]

Management as a Profession

To recognize any job as a profession, it should fulfil certain criteria. Further, the practitioners of such a profession must possess specialized and exclusive skills that enjoy high economic and social values. For instance, medical practitioners, chartered accountants and legal practitioners are recognized as professionals because they fulfil the required conditions and also possess certain exclusive skills. While discussing the role of managers as professionals, Louis Allen[27] defines a professional as "one who specializes in the work of planning, organizing, leading and controlling the efforts of others and does so through systematic use of classified knowledge, common vocabulary, and principles and who subscribes to the standards of practice and code of ethics established by a recognized body."

We shall now see the criteria of a profession and also how management fares as a profession in fulfilling those conditions.

An Organized Body of Knowledge

Like any other profession, management also has well-defined concepts, principles, rules and theories. Besides, it has well-developed management techniques that facilitate managers to perform their jobs efficiently and successfully. There have been continuous research/experiments on management to develop new theories and to strengthen the existing theories. Managers extensively apply such systematized management theories for analysing organizational problems and making decisions. Despite all these, managers still use word-of-mouth as an important source to get information relevant for decision making. Similarly, they still depend on their intuitive feelings and experience to guide them in the decision-making process.

Formal Education and Training

To be a professional, a person must possess adequate knowledge and competence received through formal education, training, experience and exposure. Further, they must continuously update their skills and knowledge by undergoing periodic training and attending workshops and seminars. Managers of today mostly acquire knowledge and skills through formal education and training. Several schools and institutes of management have emerged to offer formalized education and training for management aspirants and also conduct refresher programmes for working managers at periodic intervals. For instance, the Indian Institutes of Management, Indian universities and other such professional institutions conduct courses on management.

However, it is not mandatory for managers to have formal education and training for taking up the management profession. It is also not compulsory for managers to have gone through any continuous educational programme as in the case of chartered accountants. For instance, The Institute of Chartered Accountant of India (ICAI) has a Continuous Professional Education (CPE) programme for its members. Members of ICAI must attend 20-hour CPE programmes for renewing their membership license annually. These aspects make managers different from other professionals like chartered accountants or medical practitioners.

Existence of an Association

The Institute of Chartered Accountant of India (ICAI) acts as the regulatory body for chartered accountants. Similarly, the All India Management Association (AIMA) acts as the apex body of management professionals. AIMA has 58 affiliated Local Management Associations (LMAs) and two co-operating management associations, i.e. Qatar Indian Management Association and Mauritius Management Association. It offers guidance and advice to all its members that include over 3000 institutions and 30,000 individual professionals directly and through LMAs. It also represents its members in policy-making bodies of the government. However, AIMA cannot be equated with other regulatory bodies such as ICAI and Medical Council of India (MCI). This is because it has no formal authority to regulate the entry of its members and also their behaviour.

Existence of an Ethical Code

It is compulsory for members of a profession to observe the code of ethics prescribed by their regulatory authorities. Managers are also expected to upkeep ethical values such as integrity, impartiality, responsiveness to public interest, honesty, transparency and accountability while discharging their duties.[28] However, the observation of these codes of ethics is not made mandatory for them by any governing body.

Charging of Fees

Service to the society should be the motto of any professional whether it is a doctor, auditor or lawyer. They must charge fees only in proportion to the services offered by them. They must not think in terms of personal gain. Similarly, they must never offer or accept improper rewards in any form or manner. In the same way, managers are also expected to uphold the integrity, dignity and honour of their profession. However, management has no regulatory body to enforce these rules. It also has no mechanism to prevent or detect and penalize the violators of such professional codes.

The above discussion may show management as a profession but certainly not in its fullest form. Surely, management has a well-developed and highly specialized knowledge base. Similarly, modern and resourceful statistical tools are also available to assist managers in the decision-making process. Further, managers acquire skills and knowledge through formal education and training processes. All these factors move management much closer to be called a profession. But management clearly lacks certain aspects that prevents it from emerging as a full-fledged profession. For instance, management has no statutory body to restrict the entry and exit of its members. Similarly, it has no statutory code of conduct to regulate the behaviour of its members.

Challenges Facing Management

Managers face a variety of challenges in their job. They are often burdened with the task of resolving problems in a creative and successful way. For instance, faster technological changes, constant innovations, intense competitions, superior education and knowledge among employees and fast-changing customer tastes, preferences have all made managers' job more challenging than before. Obviously, the extent of success of managers is determined by their ability to rise up to these challenges. We shall now discuss the challenges facing managers in their profession.

Cultural Diversity in the Workforce

In the past, managers were mostly dealing with a localized and homogenous workforce. In contrast, most managers today deal with a culturally diverse workforce. Socio-cultural development, together with policy interventions by the government, has changed the characteristics of the Indian workforce. For instance, there is an increasing presence of women, religious minorities, socially backward and physically challenged people among the workforce. Further, the reformist policies of the government have also brought in workers from different nations. As a result, the present day workforce is racially and culturally more diverse and also gender balanced.

Box 1.2
Connecting People—The Nokia Diversity Initiative

Today, workforce diversity has become the essential concern of many organizations both in India as well as abroad. Top managers have begun to see diversity as one of the effective means of achieving business success and to tackle talent shortage. Companies that have initiated the process of diversifying their workforce have begun to enjoy a distinct competitive advantage over those that have not. Finland-based Nokia, which has a production unit at Chennai, is one of the pioneers in attempting a workforce diversity initiative.

Nokia's diversity goal is to enable men and women of different cultural or ethnic backgrounds, skills and abilities, lifestyles, generations and perspectives to contribute their best to its success. It also uses workforce diversity for the better and deeper understanding of its global customer base and to meet its divergent needs. The diversity initiative of Nokia includes: (i) ensuring adequate flexibility in working conditions and policies to enable an inclusive work environment, (ii) establishing "inclusive leadership" as part of Nokia's overall leadership umbrella and (iii) seeking, valuing and benefiting from differences. In this regard, the Nokia diversity efforts include programmes and initiatives such as the Asia Talent Program; Women in Nokia (W.I.N.) employee network; Lesbian/Gay/Bisexual/ Trans (LGBT) employee network and a variety of other initiatives to make the best use of the key diversity groups.[38]

The workforce diversity compels managers to be more sensitive to the distinct needs of the different groups. Managers are thus required to adopt policies and practices that take care of the interests of different segments of the workforce. Chances for misunderstanding, miscommunication and misinterpretation of the managers' instructions have increased in this sharply diverse workforce.[29] However, managers through effective cross-cultural training and creative management techniques can overcome these diversity-related difficulties. They can also make it an advantage for the organization in terms of enhanced creativity and competitive advantage.

Technological Developments

In recent times, the work environment of managers is very much influenced by continuous technological developments. Electronic instruments like computers, mobiles and Internet facilities have increased managers' access to faster, quality and timely information. They have enhanced the scope for better and accurate problem analysis and quality decisions.

The managers' dependence on technology poses a few challenges to them. They must know exactly when and how these technologies should be used. Excessive dependence on technology might affect the long-term planning, preparation and perspectives of managers. This is because they may give undue importance to short-term trends, phenomena and outcomes. Further, a faulty or underutilized technology may push up the cost of operations of the business. Besides, managers should keep track of technological developments constantly and adapt themselves to these changes quickly. This may require continuous upgrading of their digital knowledge and skills.

Interdependent Nature of Work

The basic nature of managers' job is to get work done through others to accomplish organizational goals. Thus, the success or failure of a manager is decided not by them alone but by their subordinates too. Thus, there is always a possibility of an efficient manager being let down by a bunch of uncooperative and rigid subordinates. Further, the unhelpful attitude of subordinates can also cause conflicts in their relationships with the managers leading to mutual stress, anxiety, fear and work disruption.

Ethical Dilemma in Decisions

Ethics refer to the ethical principles and practices that determine the behaviour of an individual or a group. Whenever decisions are to be made, modern day managers are required to evaluate their choices against the ethical standards to decide whether their actions are morally right or not. Certainly, decisions that are ethical would enable managers to gain the trust, respect and cooperation of the workers. Thus, managers must ensure that their decisions are not only effective but also ethical. In reality, ethical decisions may not always be practical and their implementation may pose challenge to managers. Managers often face ethical problems in work scheduling, wage fixation and promotion decisions. In any situation they should ensure that ethical values guide all their decisions.

Global Perspectives

Developments in telecommunication and transportation, besides reduced trade barriers, have helped many organizations to become global entities today. Globalization of business has thrown open several challenges to managers. In a globalized environment, it has become essential for managers to have global perspectives of all issues affecting their organization. Specifically, managers must understand the global environment properly and develop a global attitude while analysing problems and making decisions. Further, they should be sensitive and responsive to the national and regional differences of their workforce. Again, managers must constantly look for globally best business and managerial practices and adopt them quickly to remain globally competitive.

Cross-functional Excellence

It refers to an employee's excellence in various functional areas of the organization such as research, engineering, marketing, finance, human resources and operations. Nowadays, organizations require their managers to possess skills and capabilities in various functional areas. Managers are expected to have a good knowledge of other relevant functional areas in addition to specialization in their own functional areas. For instance, it is desirable for a marketing manager to have a good knowledge of the production process and problems. Similarly, a finance manager can have expertise in the production and marketing aspects of the organization.

The cross-functional excellence helps managers in understanding the implications of their actions on other departments and also on the organization as a whole. Understandably, managers with cross-functional excellence are preferred for higher managerial positions as they can make the best possible contribution to their organization. In the words of Mark Stevens, "to rise to the ranks of senior management, you must forgo this quest for personal perfection, seeking instead to balance the skills and capabilities of the specialists working for you."[30] However, managers may find it challenging to be cross-functionally excellent.

Though these challenges are common to all management in general, their size and intensity may differ for individual managers depending on their position in and the nature of the organization. For instance, Carina Schofield[31] in a study has identified a few specific challenges for public-sector managers. They are: the increasing pace of change, technological developments, changing perceptions, increasing expectations, citizen empowerment, changing workforce and changing environment.

Strategic Management—An Overview

Strategic management is the systematic process of determining the goals to be accomplished in the future. It may involve studying the internal and external environment of an organization. The internal environment, i.e. the environment inside an organization, is usually within the control of the organization, while the external environment is usually shaped by factors like customers, suppliers, competitors and legislative practices. The process of strategic management involves development, execution and appraisal of corporate strategies to achieve the performance goals of the organization. Donald F. Harvey defines strategic management as the set of managerial decisions and actions that determines the long-run performance of a corporation. It includes environmental scanning, strategy formulation, strategy implementation, and evaluation and control.[32] There are five steps in the strategic management process of an organization. We shall now discuss each of these steps in detail.

Determination of Vision and Mission

The first step in the strategic management process requires a clear vision and mission statements for an organization. The three components of business vision include core values, core purpose and visionary goals. The vision statement of the organization conveys the future it envisages and the goal it wants to accomplish in the near and distant future. Similarly, its mission statement declares the purpose of the organization. In fact, the mission statement helps the organization link its activities to the needs of the society and legitimize its existence.

In strategic management, mission and vision provide the framework for strategic planning within the organization. In fact, it provides the direction to the whole organization and helps decision-makers prioritize their activities. At the first stage of the strategic management process, managers assess their positions and responsibilities related to the vision, mission and goals of the organization. While the vision and mission of an organization remain unaltered, its strategies can be changed in accordance with the changing environment.

Analysing the Environment

Environmental analysis requires collecting, analysing and providing information for tactical or strategic purposes. A successful management strategy depends to a great extent on the ability of managers to scan the environment with precision. It is essential for managers to be aware of the external environment and to use their understanding of the environment as a critical input for strategic planning and management. While scanning the environment, managers look for changes in the environment and also for their impact on the organization.

Environment analysis can be classified into two: external analysis and internal analysis. External analysis refers to the analysis of changes in the external environment and the consequent threats and opportunities for the organization. A proper assessment of the probable changes in the environment will enable the organization to face such changes effectively. Internal analysis involves analysing the existing strengths and weaknesses of the internal factors like production facilities, marketing techniques, management competencies, HR skills and strategic choices in attaining the strategic goals of the organization. While analysing the environment, an organization may opt for *ad hoc* scanning, in which it prefers a short-term and occasional scanning of the environment, especially when it faces a crisis. Alternatively, it may also go for continuous scanning, in which the environment is analysed on a continuous or regular basis on a broad range of parameters.

Strategy Formulation

The next step in the strategic management process is strategy formulation. This step involves determining the courses of action suitable for achieving the organizational objectives. After understanding the likely changes in the environment, managers should develop a range of strategic alternatives to deal with the critical issues of the market. While choosing the best strategy, the organization should assess its internal strengths and weaknesses in the background of the opportunities and threats that it has identified in the market.

Strategy Implementation

In the strategy implementation stage, organizations mostly concentrate on the techniques required for effective execution of strategies. In this regard, they may undertake activities like enhancing organizational capabilities, mobilizing resources, training and motivating HR resources, establishing an information and control system, revamping the work ethos and culture, and ensuring appropriate leadership. Normally, the implementation stage involves: (i) developing the capabilities of the organization steadily to accomplish the strategy efficiently; (ii) distributing the scarce resources among the strategically significant activities; (iii) establishing the necessary policies and practices that support strategy execution and (iv) developing affirmative organizational culture and responsive leadership.

Strategy Evaluation

The final stage in the strategic management process is performance evaluation. Since strategic management is a continuous process, it is essential for managers to continuously assess the performance of each strategy after its execution. Based on the performance, the organization can bring about necessary changes in its future strategies. Organizations may have to constantly improve their strategies because (i) the market conditions continuously change; (ii) better ways of performing existing activities may emerge and (iii) the existing managers may be replaced with those with new ideologies and orientation. The performance evaluation process usually consists of the following steps:

- Setting performance standards in the form of tolerance limits for every stage of the strategic management process.
- Assessing the actual performance of the implemented strategies after a reasonable time frame.
- Comparing the actual performance of the strategies against the set standards to identify the performance gaps.
- Initiating necessary adjustments, if the gap exceeds tolerance limits, like modifying the strategies, revamping performance objectives, bettering strategy execution and redefining business vision and mission, if necessary.

Value Based Management

Values are qualities or traits considered important by people. These values are capable of acting as driving force for organization and its members to fulfil the goals and objectives. The values of individuals mingle with others in the organization to create organizational culture. In fact, the value statements of organizations define how members want to behave with each other in an organization[33]. Broadly, values can be classified as values concerned with end (goals to be accomplished) and values concerned with means (they way the individuals go about to accomplish those goals). The values concerned with means can further be classified into values relating to morality like honesty or fairness and values relating to competence like creativity or logic[34].

Of late, organizations provide priority to value based management to guide employees in the way they do their jobs. This value based management indicates what the company stands for and also necessitates an understanding of what is most important for an organization. Value based management calls for moral and ethical reasoning to develop legitimate and balanced performance goals[35]. One of the most popular organizational values is professionalism. The other important values are honesty, integrity, impartiality, customer care, staff well being, team work, continuous learning and improvement, Diligence, achievement and recognition.[36]

Summary

1. Management is a process concerned with the effective utilization of human and physical resources for attaining organizational and individual goals through a facilitating environment.
2. The characteristics of management are: (i) it is a process, (ii) it is a goal-directed activity, (iii) it is a decision-making activity, (iv) it involves effective integration and utilization, (v) it is practised at different levels of an organization, (vi) it is universal in character and (vii) it is a group-based activity.
3. Management of an organization is classified into three categories as top, middle and front-line management based on administrative responsibilities. Management can also be classified into production management, marketing management, financial management and human resource management based on the functions carried out.
4. Managerial process or functions performed for organizational goal accomplishment are planning, organizing, staffing, directing and controlling.
5. Managerial roles refer to the specific actions or roles performed by managers as part of their job. Roles performed by managers in their profession are: (i) interpersonal roles, (ii) informational roles and (iii) decisional roles. Figurehead, leader and liaison roles are examples of interpersonal roles. Informational roles involve roles of monitor, disseminator and spokesperson. Decisional roles include entrepreneur, disturbance handler, resource allocator and negotiator roles.
6. Managerial skills for success include technical skills, conceptual skills, human skills, political skills, diagnostic skills and digital skills.
7. Administration is basically a determinative function because it predominantly involves decision-making activities while management is mainly an executive function as it is concerned more with the implementation of decisions made by administration.
8. Even though management is close to being called a profession, it has not yet qualified to be termed as a full-fledged profession.
9. The challenges faced by managers in their profession are: (i) cultural diversity in the workforce, (ii) technological developments, (iii) interdependent nature of work, (iv) ethical dilemma in decisions, (v) global perspectives and (vi) cross-functional excellence.
10. Strategic management is the systematic process of determining goals to be accomplished in the future. The five steps in strategic management are: determination of vision and mission, analysing the environment, strategy formulation, strategy implementation and performance evaluation.

Review Questions

1. Define the term management and state its characteristics.
2. What are the different objectives of management?
3. Critically examine the various levels of management in an organization.
4. How can we classify management based on functions?
5. Discuss the functions of managers with relevant examples in detail.
6. Enumerate the various roles performed by managers as a part of their profession.
7. Describe the managerial skills essential for the success of managers.
8. Distinguish between administration and management.
9. Administration is a part of management. Do you agree?
10. Is management a science or an art? Substantiate your response.
11. Management can be termed as a profession. Do you concur?
12. Trace and discuss the challenges facing the managers of today.
13. Management involves getting things done through others. Discuss.
14. Discuss the importance of managerial efficiency in the contemporary business environment with special reference to India.
15. Management is both an art and a science. Examine.
16. The fundamental functions of managers are universal. Substantiate.
17. Discuss in detail the universality of management concepts.
18. What do managers do? Why?
19. Crucially evaluate the steps of the strategic management process in detail.
20. The growth of strategic management in Indian organizations is basically due to the increased globalization of its business operations. Comment.

Case Study

Talent Management in Small Organisation

Akshay Sales Corporation is a partnership firm established in the year 1994 at Surat, Gujarat. The founder and the CEO of this firm is Mr. Amar Patel. This firm is the distributor, wholesaler, and supplier of all types of wood working, laminate pressing, shoes PU adhesive, and SR rubber adhesive for foam and flooring and mattress. Akshay is one of the top five performers in this type of business out of about 50 Small and Medium Enterprises (SMEs) in its region of operations. Being an experienced firm, it also enjoys good competitive edge over others in business. The average turnover of this partnership firm is Rs. 24 crores, whereas the strength of its workforce is 348 employees, including clerical, supervisory, and managerial categories.

Akshay is well known for achieving customer satisfaction, ensuring timely delivery, innovating new designs, and honouring commitment to buyers. However, the critical and thorny issue of this firm is the talent management and retention. The human resource management system of Akshay is very much traditional and similar to any typical Indian SME. This firm does not have a specific manager or officer with HR responsibility. Most basic HRM functions such as recruitment and salary fixation are done by the line managers either by themselves or in consultation with the CEO of the firm. In recruitment, it seeks professional competencies among the potential candidates and also offers competitive pay packages. In most cases, the promotion is given to the employees based on the assessment and recommendation of the line managers.

As regards the talent management, the major problem for Akshay is in retaining the talented people with the firm for longer duration. This problem persists despite the abundant availability of skilled people in labour market. Akshay offers financial incentives to employees at highly competitive rates as a retention device but without much success. The firm has no record of conducting any form of formal skill training for its employees. This is because the CEO of the firm Mr. Amar Patel strongly believes that employee training can only worsen the problem of talent retention as the well-trained employee is more likely to leave the firm-seeking greener pastures. Consequently, this firm ruled out training as a solution to the problem of high attrition. In Akshay, the attrition related issues remain untamed and continue to affect the plans and future growth prospects of the firm. During temporary recession, it was decided lay off the people to lessen the wages cost resulting in to draining out the talent people. Remained only were average performers. After recovering from recession, when managers reached out to sacked people offer them to re join, it came out as a shocking surprise to the management that most of them refused to rejoin on some pretext or the other. Now the problem before the, managers and CEO is to employ not only the good people but also to retain them,. The organisation suffered business as started getting complaints about poor logistics and quality of products. In all likelihood, this issue may worsen in coming times as the competitors may adopt aggressive style with using their ex- workers knowledge about the important business information of Akshay Sales corporation.CEO has asked the managers to come forward with a blue print to address the problem.

Questions

1. What is your assessment of the whole situation in Akshay Sales Corporation from HR perspective?
2. According to you what specific steps are to be taken by Akshay to tackle the problem of rising attrition rate?
3. What should be long-term strategy of this firm in terms of HR policy, procedure, and practice?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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CHAPTER 2

The Evolution and the Environment of Management

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. List the stages of evolution in management
2. Enumerate the various approaches to the study of management
3. Elucidate the environment of management
4. Understand the recent trends in management

India's Inspirational Managers

The Aditya Birla Group's history dates back to the 19th century when Seth Shiv Narayan Birla commenced trading in cotton. He expanded the business quickly even during India's arduous times of the 1850s. During the early part of the 20th century, Ghanshyamdas Birla, the group's founding father, set up industries in critical sectors such as textiles and fibre, aluminium, cement and chemicals. Understandably, Ghanshyamdas Birla emerged as one of the foremost industrialists of pre-independent India. The business and managerial beliefs and principles of Ghanshyamdas Birla became the beacon light for the entire group. His grandson, Aditya Vikram Birla, was the first to put Indian business on the world map, as far back as 1969, long before the globalization of the Indian economy. Aditya Birla was professional, modern and forward-looking. He believed that a business could be global and successful while still being based in India. His son, Kumar Mangalam Birla, is now the chairman of the Aditya Birla Group.

The business strategies of Kumar Mangalam Birla include among others: (i) achieving accelerated growth, (ii) building meritocracy and (iii) enhancing stakeholder value. Under his stewardship, the Aditya Birla Group enjoys a position of leadership in all the major sectors in which it operates. Today, the Aditya Birla Group is a USD 40 billion corporation and is part of the *Fortune* 500 list. It has a workforce of over 133,000 employees belonging to 42 different nationalities. A firm practitioner of the trusteeship concept, Kumar Mangalam Birla has institutionalized the concept of caring and giving at the Aditya Birla Group.

The evolution of managerial beliefs and practices, seen through the prism of the Birla family, can provide a perfect setting for discussing the evolution and environment of management in this chapter.

Introduction

Management is a field that has grown steadily over a period of time. It now has a strong theoretical base with a lot of practical relevance. The existing management thoughts are developed by the management thinkers to help businesses stay efficient, effective and viable at different times and conditions. These thinkers constantly searched for the organizational structure and behaviour that can guarantee an organization's success.[1] They developed concepts, principles and philosophies that helped the managers to get desired results, satisfy customers, generate surplus and create values. Management theories also focused on the best methods of utilizing the organizational resources effectively. Certainly, the present-day management thinking has evolved over a very long period of time.

The primary aim of management thinkers in developing new management theories is to suggest one best way to organize business and solve management problems. Interestingly, most problems of today's managers are the same as those faced by the managers of earlier periods. Such continuity in the managerial functions makes management practices always relevant and time-tested. Therefore, it is essential to understand the origin and growth of management thoughts that may have valuable lessons for the present and future managers.

Origin of Management

Management is primarily a mental activity. It is a kind of activity that must be done by people alone. It can not be delegated to the care of machines. The nature of management has a direct impact on how well a task is carried out. Even during ancient times, managers played important roles in the accomplishment of mega works such as building monuments, founding cities, creating huge business enterprises and establishing religious and educational institutions. The Egyptian pyramids, the Great Wall of China and the Taj Mahal are a few examples that showcase the managerial skills of the people from the distant past. For instance, the construction of a 481-metre tall pyramid in 13 acres of land at Egypt required systematic engagement and supervision of nearly 100,000 persons for a period of over 20 years. In this context, we shall first see the important milestones in the development of management in the earliest period of time.

Early Management Thought

Management as a field of study is unique because the practice of management is ancient, but its body of knowledge (theory) is comparatively recent. In any case, the basic aim of management always remained the accomplishment of specific goals through effective utilization of physical and human resources. Let us now discuss the origin of the term, manager, before tracing the developments in the earliest stage of management thoughts.

The term, manager, has its roots in different languages. For instance, the Latin word *manus*—which means, "by hand." This word was widely used during the Roman Empire to specify officials who had power over people and also the authority to issue orders and directions. The Italian word, *maneggiare*, meaning, "persons in charge of production facilities," was popular during the 13th century. The French word, *manegerie*, appeared during the 15th century as an equivalent of another French word, *maneggiare*. The English word, manager, made its appearance in the official documents of 1589. This term was used to indicate persons entrusted with the responsibility of the upkeep of a landed estate.[2]

Earliest Texts on Management

The earliest texts on management are, *The Duties of the Vizier*, Sun Tzu's *Art of War*, Confucius's (ca. 552–479 BCE) *Analects*, and Chanakya Kautilya's *Arthashastra*. Let us see a brief description of each.

The Duties of the Vizier: This is a 3500-year-old manual, written apparently during the 18th dynasty of ancient Egypt. This book is the first written material that talks about the goals of the management and the tasks of the managers (loosely called, "viziers," in those days). The viziers, who held top governmental positions in ancient Egypt, were responsible for the efficient management of physical and human resources belonging to the Emperor. They were also responsible for training the younger members of the Emperor's family in administrative functions and affairs.

Sun Tzu's Art of War (ca. 600 BCE): This Chinese classic on military strategies was written nearly 2000 years ago by a top-ranked military general during the Western Zhou Dynasty. An authoritative work on military strategies and tactics, this book has found wide applications in the formulation of business and organizational strategies. Even today, this book is the source of inspiration for managers, and offers them advice on how to succeed in a competitive business environment. The basic content of this book has been included in the training manuals of many organizations, especially for executive development programmes.

Confucius's (ca. 552–479 BCE) Analects or The Sayings of Confucius: This is the compilation of messages of Confucius—China's first teacher and a great philosopher. The management philosophy and practices of China were greatly influenced by Confucius's teachings for thousands of years. For instance, Confucius's value system and order, known as the Five Relationships of Confucianism, the Five Virtues and the Confucian Work Ethic greatly influenced the managerial approach of the Chinese. Specifically, the Five Relationships explains the appropriate behaviour and roles for every member of an organization. The Five Virtues stresses the importance of harmony and a moral framework for the society. The Confucian Work Ethic speaks about the importance of hard work, loyalty and dedication, frugality, and a love of learning for organizational members.[3]

Chanakya Kautilya's Arthashastra (332–298 BCE): This 2300-year-old Indian classic discusses statecraft (the art of managing government affairs), economic policy and military strategy. It offers advice on how to establish and maintain socio, economic and political order in the country. This book insists that the administrators should ensure continuous and comprehensive learning. They should learn to (i) look at organizational problems from different perspectives, (ii) think both holistically and strategically and, lastly, (iii) resolve conflicts by engaging various stakeholders and removing the cause of the conflict.

The development in the field of management was slow and uneventful for long periods of time in history. The Industrial Revolution of the 18th century brought about remarkable changes in management thoughts and practices. This period witnessed large-scale replacement of manpower with machine power. This period also seen the employment of unrelated workers in centralized places called factories. The factories required people with managerial skills to create demand for their products, to assign tasks to workers and to direct and coordinate the of workers. This period also saw the emergence of new management styles such as *laissez-faire* (non-intervention by state) and *laissez-passer* (unrestricted travel and movement). The renowned economist and management philosopher, Adam Smith's contributions to management thought came during the earliest period of the Industrial Revolution.

Adam Smith's The Wealth of the Nations (1776): Adam Smith, the father of liberal economics, created a revolution in economic thought by suggesting that market and competition should be the regulators of any economic activity. He also suggested that the state should adopt a "hands off" policy towards business and economic management. This approach may differently be called as non-intervention, free enterprise or economic liberalism. According to him, wealth consisted of goods that all people could consume. He looked to promote the wealth of the whole nation and not the interest of any class. He suggested that any public policy that “improves the standard of living of the poor and workers is a good policy. Instead, if it hurts their standard of living, it must be a bad policy.” For effective management, he advocated the concept of division of labour. This means that the manufacturing process is divided into several simple operations and then delegated to particular workers or machines to perform. Such division can lead to workers’ specialization and improved organizational productivity and employees’ skill.

Approaches to the Study of Management

The late 19th and early 20th centuries have witnessed some important developments in the field of management. For instance, renowned management theories such as the scientific management theory and the general administrative theory were introduced during this period only. After that several other approaches to management have also been developed by management writers and practitioners. For easier and better understanding, these approaches have been classified into six categories as illustrated in Figure 2.1. They are: (i) classical approach, (ii) behavioural approach, (iii) quantitative approach, (iv) systems approach, (v) contingency approach and (vi) information technology approach. We shall now discuss these approaches.

Classical Approach

The classical approach to management mainly includes the scientific management, the administrative management and the bureaucratic management theories. The primary focus of this approach is on the constant improvement of organizational efficiency through enhanced employee productivity. The classical approach, particularly, the scientific management theory, was generally viewed as a formal and impersonal approach to management.[4] We shall now discuss the classical approach in detail.

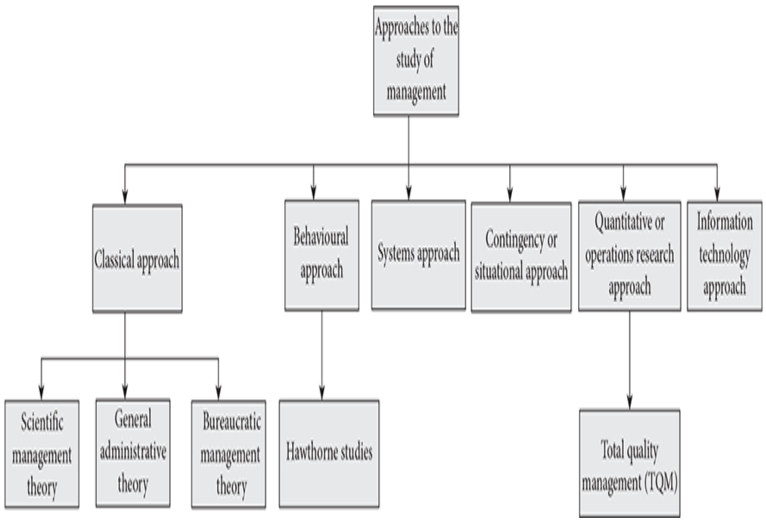

Figure 2.1
Approaches to the Study of Management

Scientific management—The earliest attempt to study, understand and perform managerial activities in a scientific and systematic manner was made by Frederick Winslow Taylor (1856–1915). Taylor, who joined as a common labourer in 1878, rose to be an engineer and manufacturing manager. During his career, he worked in several companies such as the Midvale Steel Company, Simonds Rolling Machine and Bethlehem Steel Company. In his book, *Principles of Management*, Taylor insists that there is "one right way" available for performing the job in the most efficient manner. However, this right way to do the job should be determined only by experts who have a scientific understanding of the job. In this regard, he called for redesigning of jobs and change in the attitude of workers towards their job for achieving maximum efficiency. Further, Taylor also employed scientific analysis and experiments to develop that "one right way" in task accomplishment.

The development of "one right way" for different jobs enabled Taylor to achieve nearly 200-percent increase in productivity on a continuous basis in his organization.[5] Job design, work layout and task scheduling are some aspects of production where his influence is still felt. He has been acknowledged as the father of scientific management for replacing informal rule of thumb and intuition with scientific management principles and techniques. The scientific management principles recommended by Taylor are:[6]

- Replacement of the rule of thumb with true science in management. It involves undertaking a scientific study of tasks to determine the best methods for performing each element of a job.
- Replacement of self-training with scientific training. It involves scientific selection, training, teaching and development of each worker in place of arbitrary selection, self-training and development.
- Hearty cooperation between the employer and employees. It involves ensuring complete cooperation of workers so that all work is carried out in conformity with the scientific principles developed.
- Equal distribution of work and responsibility. It involves dividing the work and responsibility nearly equally between the management and workers instead of assigning all the work and a greater part of responsibility to the workers. For instance, the management can do the work (such as planning the tasks) for which it is better-suited and the workers can execute those tasks.

Factories that implemented Taylor's principles achieved remarkable improvements in productivity, quality and performance. However, Taylor was criticized on the grounds that his approach to management had resulted in the exploitation of workers, frictions with trade unions, killing of individual initiatives and overemphasis on work measurement.

Management thinkers like Henry L. Gantt, and Frank and Lillian Gilbreth, have worked on the scientific management theory to make it more sensible and acceptable. For instance, Gantt improved on the incentive scheme of Taylor called the differential piece-rate system, by including bonus for workers and their supervisors. As per Gantt's scheme, the workers are entitled to bonus wages if they complete their daily workload assignment successfully along with their supervisors. Frank and Lillian Gilbreth worked on ways to improve productivity and reduce fatigue. In this regard, they focused on the workers' movements to identify and eliminate wasteful motion, thus reducing job-related fatigue. They were also involved in the designing and development of proper tools and equipment for achieving optimum work performance.

General administrative theory—Henri Fayol (1841–1925), who suggested good management practices for managers, is regarded as the father of modern operational management. He developed a holistic view of management by looking at it from a total organizational perspective. In his book, *General and Industrial Management* (1916), Fayol has explained what managers should do and what principles they should follow. In this regard, he first classifies the activities of the organization into six broad categories. These activities are: (i) technical (e.g., production), (ii) commercial (e.g., production and selling), (iii) financial (e.g., mobilizing capital), (iv) security (e.g., protection of properties), (v) accounting (e.g., gathering and dissemination of financial information) and (vi) managerial (e.g., planning and organizing). He then focussed on the "managerial" activity for further analysis.

Fayol believed that management is a unique activity applicable to all kinds of institutions and activities, including business organizations, government and households. According to him, there are six primary managerial functions. They are: forecasting, planning, organizing, commanding, coordinating and controlling. To perform these functions effectively, he suggested 14 principles of management. These principles are:

1. **Division of labour:** This refers to the splitting up of the productive process into different components or parts. Division of labour leads to specialization as each worker performs the same tasks with increased frequency. This specialization, in turn, helps them in achieving higher output with the same efforts.
2. **Authority:** It is the right to give orders. Authority is essential for managers to get the work done through workers. However, the managers' authority must be accompanied by the corresponding responsibility.
3. **Discipline:** It is the workers' observance of rules and regulations of the organization and also their agreements made with the management. In this regard, Fayol insisted on fair and clear agreements, well-judged punishments and presence of good supervisors at all levels.
4. **Unity of command:** It refers to employees receiving instructions from only one supervisor while executing their tasks. In the event of an employee receiving orders from multiple supervisors or managerial authority, employee discipline and organizational stability may be affected.
5. **Unity of direction:** It refers to the presence of one head (leader) and one plan to guide all the organizational or group activities that have the same purpose and common goal. This should avoid any possible confusion and inconsistency in the messages and instructions given to the employees.
6. **Subordination of individual interest to general interest:** It means that the interest of an individual employee should not take precedence over the overall organizational interest. If there is any conflict between the interest of an individual employee and that of the organization, employees

should sacrifice their own interest for the sake of the well-being of the organization as a whole.

7. **Remuneration:** It refers to the fixation of remuneration in such a way that it satisfies not only the employees but also their employers. While compensating the employees for their work, the business conditions of the organization, value of employees and mode of payment should be given adequate consideration.
8. **Centralization:** It is the degree to which employees are involved in decision making. Each organization has a certain degree of centralization depending on its size and the skill levels of its managers. The degree of centralization increases when the subordinates are less involved in decision making. In contrast, the degree of decentralization increases when employees are more involved in such decisions.
9. **Scalar chain:** It refers to the line of authority that flows from the top management to the lowest ranks in the organizational structure. In normal circumstances, all messages and orders must pass through a scalar chain. Yet, when quick communication is required, a direct link (called gang plank) may be established by sidestepping the scalar chain.
10. **Order:** It refers to the arrangement of people and material in the organization. Order may be classified into human order and material order. A proper place for everyone and everyone in his/her place is the meaning of human order. A proper place for everything and everything in its place is the meaning of material order.
11. **Equity:** It refers to the warmth, justice, kindness and friendliness in the relationship between the employee and employer. In this regard, managers must treat all employees equally and impartially to inspire their confidence and faith.
12. **Stability of tenure of employees:** It refers to the time to be allowed to employees to become familiar with their jobs and to be efficient in performing them. Organizational plans and policies must allow sufficient time for employees to settle in their jobs.
13. **Initiative:** It refers to the capability of the employees to design, develop and act on the plans successfully. Management must encourage employees to take initiatives within the limits of their authority to invent new ideas, try new experiments and develop better techniques of job performance.
14. **Esprit de corps:** It refers to team spirit, harmony and unity among employees. Management must believe in the principle, “Union is strength,” and develop a sense of belonging and oneness among the employees.

Fayol’s theory is widely viewed as a systematic theory of management. His techniques can be used for all functional areas of management, even though he is marginally more concerned with the activities of top-level managers.

Bureaucratic management theory—Max Weber (1864–1920) introduced a new organizational form in which hierarchy of authority and a system of rules are considered to be vital. This is called bureaucracy. According to Weber, bureaucracy is the exercise of control on the basis of knowledge.[7] According to him, bureaucracy will discourage decisions based on favouritism and family connections, and encourage decisions based on knowledge, experience and expertise. Clearly, rational–legal authority of managers is critical to decision making in bureaucratic organizations. Bureaucracy also strives at making effective use of authority to achieve organizational goals. The common characteristics of a bureaucratic organization are hiring based on qualification, merit-based promotions, chain of command, division of labour, neutrality in the application of rules and regulations, reports and records in written form, and separation of ownership from management.[8]

Ideally, bureaucratic organizations can reduce the importance of charisma, improve the control of superiors over subordinates, allow subordinates to challenge the decision of superiors by referring to existing rules, facilitate consistency in administration and ensure organization's long-term stability. However, this style of management can be effective only in those organizations where the superiors have more knowledge and technical competence than their subordinates.

The classical approaches to management enable us to understand the management of people, process and physical assets in a systematic manner. However, it failed to study and consider the differences in the behaviour of people and the changes in organizational environment. Similarly, it over-emphasized the technical aspects of a job without adequately considering the persons who actually perform such a job. All this necessitated the development of other approaches to management.

Behavioural Approach

In contrast to the classical approach which focuses on the technical aspects of management, the behavioural approach emphasizes on improving the management through the psychological makeup of the organizational members. This approach insists on the importance of understanding the human resources (people) and their thinking patterns. This approach is also known as the human resource approach. This approach looks to solve the labour–management conflicts likely to arise out of classical approaches to management.[9] The focus areas of the behavioural approach are conflict prevention, team work, motivation, leadership and communication. The three important studies that contributed greatly to the development of behavioural approaches are: (i) Hawthorne studies, (ii) theory X and theory Y and (iii) Maslow's hierarchy of needs theory. We shall discuss the Hawthorne studies in this chapter. The remaining two studies are discussed later in Chapter 16: Motivation and Morale.

Hawthorne studies—The engineers of the Western Electric Hawthorne Works conducted a scientific experiment to examine the impact of lighting on employee productivity. In this regard, an experimental group and a control group were formed to compare and contrast employee performances to understand the influence of illumination on productivity. The lighting levels remained normal for the control group throughout the experiment. However, it was changed at regular intervals for the experimental group in the expectation that productivity would change in tune with the lighting levels. Contrary to the expectations, productivity was actually increasing for both the groups in all lighting conditions. Surprisingly, the productivity of the experimental group was showing an increasing trend even under poor lighting conditions. Meanwhile, the control group also reported higher productivity even without any changes in lighting conditions. The results puzzled the engineers and compelled them to look for reasons beyond lighting for the changes in the productivity levels of employees.

At this stage, Elton Mayo (1880–1949), a Harvard Business School professor, and his team became a part of the study group. Under Mayo's supervision, a second experiment was carried out to determine the influence of a few other external environmental factors such as wages, rest timings and refreshments on employee productivity. As a part of this experiment, six female employees were brought together to form a group with no prior information to them about the proposed study. They were given increased wages, convenient rest timings, flexible workdays and workweeks. As a result, the group's productivity increased significantly. Later, these benefits were gradually withdrawn in the expectation that the productivity rate will decline but this was not happening at all. The researchers failed to establish any direct relationship between external factors and productivity. Therefore, they concluded that group atmosphere, group relations, group attitude and collective group decisions have a better influence on group behaviour than pay, perquisites and work setting, such as rest timings and length of workdays and weeks.

The results of the Hawthorne studies drastically improved the importance of "people" in an organization. This pioneering study compelled organizations to take a closer look at the social factors that influenced employee behaviour and organizational productivity and performance. This study also helped the management understand the role and relevance of trade unions as the representatives of the employees.

Systems Approach

In this approach, management views the organization as a complex and unified system composed of several interrelated and independent subsystems. Generally the production department, marketing department, finance department, etc. are the subsystems of an organization. All these subsystems are unified in a planned way to achieve the organizational goals and objectives. As per this approach, changes in any one subsystem can make different degrees of changes in other subsystems. For instance, price reduction strategy of the marketing manager may require cost reduction by the production department and low-cost borrowing by the finance department. It is thus not possible for the managers of departments to make decisions without understanding their impact on the other departments and also on the organization as a whole. Understandably, the system-based approach usually calls for frequent communication not only among the members of the same department but also with the representatives of other departments.

The systems approach also allows management to view the whole organization as a subsystem of the larger external environment. For instance, a cement company may see itself as a part of the cement industry. Again, the cement industry can be viewed as a subsystem of the national economy. Thus, each element of a business can be a subsystem (of a larger element) as well as a system (for the smaller elements that make it up).

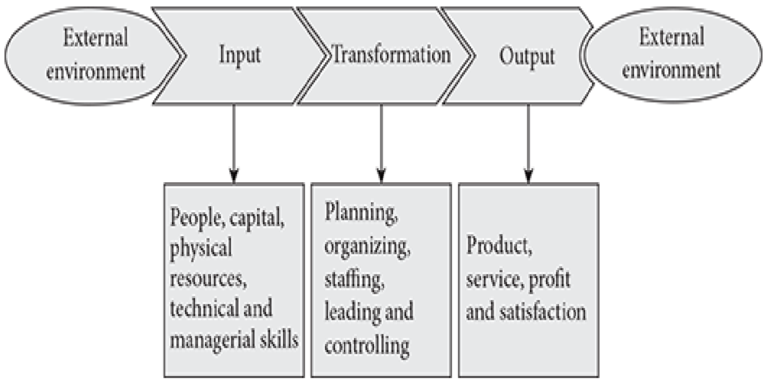

Figure 2.2
The Working of the Systems Approach

As a system, organizations can be classified into two categories: the open system and the closed system. When an organization interacts with its external environment and gets influenced by such interactions, it is called an open system. Business organizations mostly operate on an open system basis. For instance, they receive inputs from the external environment, transform them through a conversion process and send them as output to the external environment. Figure 2.2 shows the working of the systems approach.

In the systems approach, inputs from the external environment may include people, capital, physical resources, technical and managerial skills. The transformation of input into output is done through the managerial functions of planning, organizing, staffing, directing and controlling. Finally, the output to the environment can be in the form of product, services, profit and satisfaction to various stakeholders.

In contrast, when organizations keep little or no interaction with their external environment, it is called a closed system. No organization can remain closed to the external influences or interactions, except for certain institutions like prisons and monasteries.

Contingency or Situational Approach

The basic philosophy of the contingency approach is that there is no one best way for managing people in situations. The appropriate management strategy usually varies from one situation to another. The effectiveness of the management approach depends on the congruence of a number of factors such as the organizational goals, nature of activities, level of technology, the prevailing environment and people's attitude. For instance, a managerial strategy that succeeds in boosting the employee morale and organizational performance in one organization or situation may fail to have the same effect in another situation or organization. Since there is no universally applicable solution to managerial issues, it is essential for managers to be flexible in evolving appropriate strategies. They must actively consider the differences in the individuals and situations before choosing a specific course of action for solving managerial problems. Due to increasing customer diversity, employee diversity, legal and ethical regulations, and technological and environmental changes, this approach has gained more popularity among the managers in recent times.[10]

Quantitative or Operations Research Approach

The application of mathematical and statistical models, information models and computer simulations for managerial problem solving and decision making is the essence of the quantitative approach. This approach is also called management science approach since it is generally viewed as an extension of Taylor's scientific approach. This approach may be defined as "an approach to management that uses rigorous quantitative techniques to help managers make maximum use of organizational resources."[11] The mathematical techniques adopted for the quantitative approach are linear and non-linear programming, queuing theory, chaos theory, economic ordering quantity, etc. The primary purpose of applying these techniques in management is to improve the quality and accuracy of the managerial decisions. Total quality management is one such area where quantitative techniques have proven to be extremely useful.

Total quality management—Total quality management (TQM) is basically a philosophy and set of guidelines for continuously improving the organization. It focuses on the effective utilization of quantitative techniques and people to constantly exceed customer needs and expectations. TQM can be defined as "a total organizational approach for meeting customer needs and expectations that involves all managers and employees in using quantitative methods to improve continuously the organization's processes, products and services."[12] The quantitative methods normally employed in TQM are statistical process control, ISO 9000 series, Pareto analysis, matrix diagram, histograms, decision tree diagram, critical path analysis and fishbone diagram.

Information Technology (IT) Approach

The IT approach is the latest addition to the management approaches. This approach became popular after managers began to rely heavily on information technology tools and the Internet for efficient management of physical and human resources. They depend on e-mails, intranets, PowerPoint presentations, video conferencing, etc. for information sharing. Information technology has brought about changes in the very nature of the management task itself.[13] It has also helped managers to replace a manually maintained database with an IT-enabled database. Of late, organizations are making use of social networking sites such as Facebook and Twitter for communicating business and product information with their consumers.[14]

With increasing changes in the nature of organizations and the role of managers, newer understanding of management is constantly emerging. For instance, increasing globalization, cultural diversity, ethical and social responsibilities, technological development, quality consciousness and employee attrition have created new grounds for changing the existing approaches and/or developing new approaches. The existing organizational environment can also influence the style and performance of managers in organizations. For instance, approaches of managers operating in a relatively stable and mature environment are usually different from those operating in a more dynamic and turbulent environment. In this context, we shall now see the influence of organizational environment in detail.

The Organizational Environment

Environment, in simple terms, means the totality of the surrounding conditions. The environment of an organization is typically classified into internal environment and external environment. Internal environment refers to the internal forces and factors that influence the organizational activities and choices, and employee behaviour. It is shaped by the leadership styles, organizational philosophy, principles, rules and regulations and organizational culture. Members of internal environment are employees, shareholders and the board of directors.

External environment refers to the forces and factors that remain outside the organization yet influence its performance, activities and choices. External environment can further be classified into task environment and general environment. Task environment is an immediate external environment that has a direct influence on the organization's performance and activities. Members of task environment who interact with the organization are customers, suppliers, trade unions, government, competitors and pressure groups. General environment is an outer layer of the external environment. It has an indirect influence on organizational activities. General environment is composed of socio–cultural environment, economic environment, legal environment, political environment, technological environment and industrial environment. Figure 2.3 illustrates the components of the management environment.

The organizational environment, in which a business operates, will have a deep impact on the managers' way of thinking and working. For instance, organizations operating in a highly uncertain and competitive environment will require highly creative, open-minded, independent thinking and dynamic managers. In contrast, these characteristics may not be equally important for those managers who work in a stable and mature environment. Let us now see the important elements of the various organizational environments in detail.

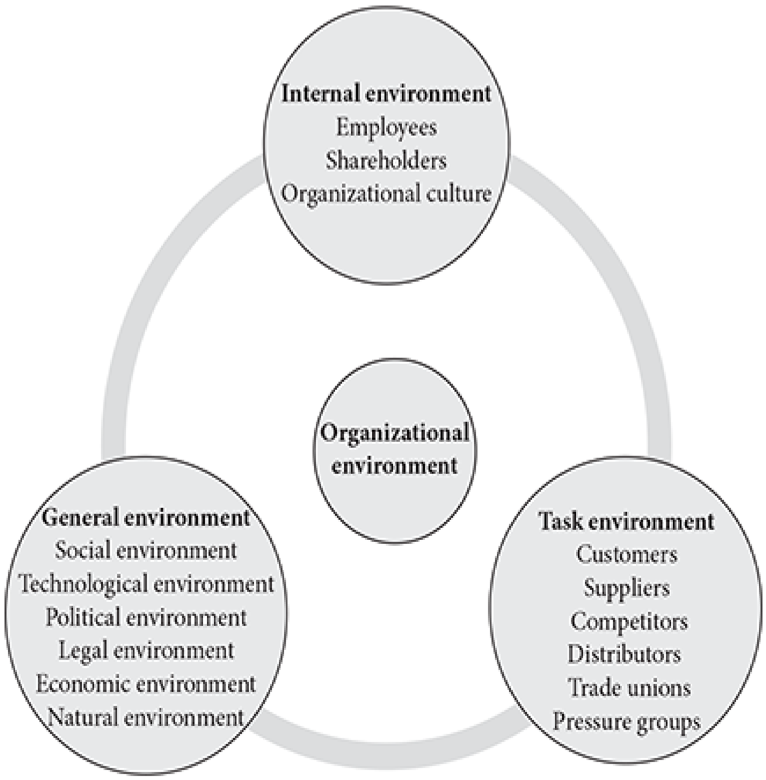

Figure 2.3
Components of Management Environment

Internal Environment

The internal environment is normally shaped by forces that remain within the boundaries of the organization. The internal environment of an organization can influence the behaviour of its members. It can also decide how well an organization responds to the developments in its external environment. We shall now see the important elements of an internal environment, namely, employees and shareholders besides organizational culture.[15]

Employees—In every organization, employees are one of the important stakeholders of the organization and also the critical determinants of its environment. This is because they affect or get affected by the existing internal environment. The styles, actions and perceptions of managers can be shaped by the nature and type of the organization's workforce. For instance, managers usually take cues from the workforce before deciding their responses to an emerging situation.

Shareholders—They are the ultimate owners of an organization. They provide capital, take risk and get a share in the profit or loss of the business. Generally, shareholders have both direct and indirect influence on the organizational environment. They directly influence the environment through their voting rights by approving the major corporate decisions. They indirectly influence the environment through the board of directors elected by them, who manage the routine affairs of the organization. It is important for the managers to give utmost importance to the interest of the shareholders. Understandably, managers operate under an environment created jointly by the shareholders and other internal stakeholders.

Organizational culture—Organizational culture is the blend of values, beliefs, traditions, past practices, languages and norms of an organization formed over a period of time. Each organization develops its own, unique and inimitable culture. This culture offers the organization a distinct identity, exclusiveness and a sense of pride. It also helps in developing a sense of oneness and common behaviour among the members of the organization. This culture profoundly shapes the internal organizational environment within which managers plan and perform. Certainly, organizational culture has a specific and definite impact on the corporate policies and managerial and financial structure and actions.[16]

The task environment—Task environment is created by the forces that interact frequently with the organization. As such, the actions of the customers, suppliers, competitors, distributors, trade unions and pressure groups shape this environment. This is vital to the accomplishment of the organizational goals because it directly and constantly influences managers' decisions and actions. We shall now see the role of each of the important constituents of the task environment.

Customers—This term refers to the individuals and institutions that buy goods and services from an organization. Obviously, customers are the most important constituents of the task environment as they determine the ultimate success or failure of an organization. All the activities of the organization are understandably directed towards the satisfaction of these customers. But they often keep the task environment shaky by changing their tastes and preferences. It is hence essential for managers to keep in mind the needs of the customers while making decisions. They must also change their plans, strategies and actions depending upon the nature and conditions of their customer base.

Suppliers—This term refers to all those who supply production inputs to the organization in the form of raw materials, labour, equipment, etc. It also includes those who provide financial inputs to the business, such as banks and insurance companies. To ensure a smooth and steady conduct of the business operation, the cooperation and commitment of the suppliers are important for managers. Managers must develop a long-term relationship with their suppliers based on mutual trust and understanding.

Competitors—Competition is a basic characteristic of any industry. Organizations compete with their rivals in the industry for selling goods or services to the same set of customers as that of their rivals. Through their plans and actions, competitors typically force an organization and its managers to act or react in the market. In this way, they can influence the environment of the managers. However, the nature and extent of such an influence on the organizational environment is determined by the conditions of the industry.

Distributors—Distributors of products or services of an organization also influence the environment of managers. The distributors' list normally includes wholesalers, stockists, brokers, agents and retailers. Distributors engage themselves in product acquisition, product movement and product transaction (selling).

Based on their experience in sales promotion, customer service and advertising, distributors pass vital information to managers about the market characteristics, including the changing tastes and preferences of the customers. They can also help managers decide the right products, right quantity and right promotion techniques for a market.

Trade unions—Trade unions affect the organizational environment of the managers through their influence over the employees affiliated with them. Trade unions provide a common platform for employees to come together and increase their bargaining power. These unions also represent the workers while negotiating with the management in any collective bargaining process. In India, trade unions play a vital role in determining the wages and salaries, welfare facilities, health and safety and working conditions of the employees. However, the ability of the unions in affecting the organizational environment has considerably declined in the post-globalization market with the emergence of many union-free organizations.

Pressure groups or special interest groups—They are organized groups of members who believe in the same cause and shared sympathy. They work together to influence individuals and institutions that have the power to make decision. For instance, anti-smoking groups may exert pressure on the government to ban or regulate the sale of tobacco in the country. In this way, these group may bring pressure on the activities of the tobacco companies. It is therefore important for managers to take notice of the activities of the pressure groups that attempt to influence the company or its products.

General Environment

The broad factors and situations that affect almost all organizations and industry are called general environmental factors. Though this environment remains external to the organization, it still has an indirect influence on the managerial decision-making process. For instance, changes in the general environment may create new challenges, opportunities or threats to the managers. Therefore, managers must continuously examine the forces in the general environment on a proactive basis. This should in turn help them in improving the organizational preparedness and adaptability. We shall now see the important external factors that constitute the general environment of an organization.

Social environment factors—A social environment is created, in general, by the educational levels, attitudes, beliefs and values of the people who live in a specific region. The social environment of an organization consists of beliefs and behaviour of the employees, customers, suppliers, shareholders and all others who interact with the organization. Each society has a distinct cultural identity that separates them from others. Employees, as members of the society, bring in their societal values to the organization. These values, in turn, directly and indirectly influence the management activities of an organization.

In India, many organizations have a diversified workforce since the employees typically reflect the diverse characteristics of the Indian population. These employees represent different regions, ethnic groups and ideologies. A culturally and ethnically diverse workforce poses direct challenges for organizations and decisively influences the environment of managers. Thus, the social environmental factor is a major phenomenon in Indian industrial organizations. Let us now briefly discuss the factors that influence the social environment of business organizations.

- **Demographics:** The population size, age structure, income distribution and geographic distribution are a few important factors that determine the demographic environment of any organization. The demographics of the Indian workforce are broadly varied and diversified in nature. The composition of the workforce in Indian industrial organizations has undergone a tremendous change in recent decades. For instance, the marginalized sections of the society such as women, physically challenged, minorities and people belonging to the scheduled castes, schedule tribes and backward communities have joined organizations in sizeable numbers. It is, therefore, important for managers to clearly understand the environmental influence of different demographics on the organization and its activities.
- **Educational status:** Education is another factor that greatly influences the social environment, which, in turn, affects the behaviour of the employees. When employees are well-educated,

they are termed as knowledge workers. Educational status profoundly influences the environment of an organization. For instance, firms with a large proportion of knowledge workers may require the managers to come up with innovative plans and programmes to meet the high expectations of the workers.

Technological environment factors—A technological environment is created when the knowledge of science is applied effectively for practical use. This kind of environment is often affected by the rate and direction of technological changes. Technological environment effected primarily by new products, processes and materials. In India, the technological environment is undergoing changes at such a rapid pace that managers are finding it very difficult to cope with such changes. Since the impact of technology on the managerial environment is substantial, it is necessary for managers to carefully study the technological environment of their organizations. They should specifically look for newly emerging technologies that can improve the competitiveness of the organization.

Political environment factors—The important factors that determine the political environment of a nation are the nature of political organizations and systems, prevailing political ideologies and political stability. We shall discuss them briefly here:

- **Nature of political organization and system:** A political organization may refer to governmental organizations, while a political system refers to the process of decision making within the political organization and the extent of concentration of power. The extent of democratization of the decision-making authority and the efficiency of political institutions can determine the political environment.
- **Prevailing political stability:** Organizations normally get better attention from the government during periods of political stability. Consequently, the chances of industrial peace are better during stable periods. Alternatively, any long spell of political instability would negatively impact the economy and the industry.
- **Political ideologies:** The philosophies of political parties are called political ideologies. Political ideologies guide the approach of political institutions towards industrial activities, particularly those involving the rights of the employees. Ideologies may also determine the government policies and intervention strategies, attitude towards trade unions, labour legislations and attitude towards foreign firms.

The prevailing political environment usually influences the functioning of the management in many ways. For instance, tax policies and trade regulations are usually influenced by the political dimensions of the external environment. It is therefore necessary for managers to develop and enhance their awareness of the political environment.

Legal environmental factors—The legal environment greatly influences the operations of managers. This environment is normally shaped by the prevailing laws. These laws are generally classified into three categories. They are: (i) administrative laws, which include the regulations issued by the government, (ii) case laws, comprising court decisions and (iii) constitutional laws, which include the fundamental rights of the citizens in the constitution.

These laws and provisions create a definite legal environment. Managers have to plan and execute their actions without violating the existing legal provisions. Since ignorance of legal aspects of managers can bring legal disputes and litigations, managers should be familiar with the laws and provisions that affect their organization and its operations.

Economic environmental factors—Economic environment refers to the nature and direction of the economy in which an organization competes or may compete.[18] An economic environment is formed by the combination of economic factors like national income, population, cyclic fluctuations in economy, labour market conditions, trade cycle, interest rate and globalization of economy. These factors can also influence the behaviour of consumers, competitors, suppliers and employees. Naturally, the factors that create the economic environment greatly influence the functioning of managers. They therefore should scan, monitor, forecast and assess the health of the economy constantly.

Globalization is an important economic factor with a critical influence on the external environment of Indian organizations. The new economic policy of 1991 brought in several economic reformist measures to India in the form of globalization, liberalization and privatization. The process of globalization has really changed the economic landscape of the country. As a result of globalization, many Indian firms have become truly global organizations with their operations reaching out to newer markets and countries. Similarly, many foreign firms began to operate in India without any major issues. Thus, globalization led to intensified competition at both the national and international arena.

Globalization has influenced the organizational environment in several ways. For instance, globalization of operations enabled many organizations to achieve lower costs and better technology. Consequently, the importance of cost and technology as tools of competitive advantage in the market has sharply declined. Truly, globalization has brought in several opportunities and, with it, challenges for managers. It has sharply increased the skill requirements of employees. Apparently, globalization has changed the approaches and the role of managers by creating a profound influence on the organizational environment.

Natural Environment

In recent times, damage to the natural environment has become a major issue affecting the organizational environment. Pollutions that cause damage to the environment are generally classified into two categories. They are: (i) domestic varieties, which include water contamination, air pollution, unsafe disposal of solid and hazardous waste, soil degradation and deforestation and (ii) global varieties, which include ozone depletion, global warming, etc. Due to the increasing public awareness on the environmental effects, managers are now compelled to think of their actions and decisions from the environmental perspective too. They are expected to focus on specific environmental areas such as sustainable development, energy conservation, pollution prevention, biodiversity, afforestation, occupational health and safety.

To be successful, managers must recognize the impact of organizational environment on employees, customers, the general public and also on their own roles and functions. They should also constantly assess the organizational environment by examining its characteristics and components. In this way, they can detect the changes in the environment early and make proactive plans to meet them successfully. For instance, when the environment is highly uncertain, managers should be prepared for making frequent changes to their plans, actions and decisions. In contrast, when the environment is stable, managers may emphasize on continuity, hierarchy of authority and rules and procedures.[19]

Recent Trends in Management

Management as a concept and practice has undergone several changes in recent years. These changes are actually the outcome of developments in the external environment of organizations. The emergence of knowledge management, Six Sigma practices, mergers and acquisitions, information technology-enabled outsourcing and world-class organizations are some of the developments that have significantly influenced the managerial styles and approaches. We shall now see these developments briefly.

Knowledge Management

Knowledge management (KM) is a process that aims at identifying and capturing the knowledge that exists across the organization. It may be defined as the systematic and active management of ideas, information and knowledge residing in the employees of an organization.[20] Knowledge may include databases, documents, policies, procedures and people's expertise and experience. KM looks to fulfil the information needs of a business effectively and rapidly by systematically and comprehensively gathering, storing, analysing and distributing necessary information. Knowledge management thus focuses on the creation of an environment that facilitates the development and sharing of people's knowledge and their capacity to act. Effective knowledge management can help an organization reduce the time required for information search by employees and also ensures better business decisions throughout the organization. It also helps the organization gain competitive advantage over its rivals in the business. Box 2.1 delineates the knowledge management practices of Tata Consultancy Services (TCS).

KM involves people, technology and processes and aims at the continuous discovery and effective use of explicit knowledge (available on paper, in documents and databases) and tacit knowledge (people's skills, experience, talents, etc.) of the organization. KM, as a technique, offers the following benefits:

- It helps the organization in creating a value from its intangible assets, such as people's experience, expertise and other information sources.
- It involves the classification and categorization of information and also allows the members of the organization to have faster access to such information.
- It enables the organization to compete in the market on the basis of the strength of its employees' knowledge.
- It facilitates the process of bringing the right knowledge to the right people at the right time with the aim of improving organizational performance and productivity.[21]
- It compels managers to learn new technologies, new measures and new opportunities to keep the organization fit and competitive.

Box 2.1
Knowledge Management Practices of TCS

There is widespread recognition among companies about the ability of knowledge management to solve the organizational problems better, adapt and tackle the changing business requirements effectively, and survive disruptive changes such as labour turnover. Companies require knowledge management to systematically capture, refine, organize and maintain organizational knowledge—a key determinant of its problem resolution capabilities—for faster and cost-effective resolution of queries. In this regard, it is pertinent to mention the knowledge management practices of Tata Consultancy Services.

Since 2003, TCS has been consistently winning India's Most Admired Knowledge Enterprise (MAKE) award for its efforts in creating and sharing knowledge. The Tata Group is also a Global MAKE award winner. TCS has a world-class training centre and has developed some of the world's most complex applications and next-generation IT infrastructures. For instance, it has designed a Knowledge Management Maturity Model to help people and processes to create, use, reuse, share, protect and disseminate knowledge within the enterprise and also with all the stakeholders. This model deals with the three important pillars of knowledge management, namely, (i) people and culture, (ii) process, policies and strategy and (iii) technology and infrastructure.[28]

Six Sigma

Six Sigma is a business management strategy for improving the quality of the product or the service output of an organization. It seeks to achieve high quality standards by identifying and removing the causes of defects in the manufacturing and business processes. In this regard, it uses a set of quality management methods by adopting statistical methods, and employing specially-trained quality experts within the organization. These quality experts are generally categorized as Black Belts, Green Belts, etc. Six Sigma practices encourage managers to adopt a definite sequence of steps in manufacturing and also quantify financial targets in the form of profit increase or cost reduction. Generally, the quality of a manufacturing process can be described by a sigma rating indicating its yield or the percentage of defect-free products it creates. A Six Sigma process is one in which 99.99966% of the products manufactured are statistically expected to be free of defects (3.4 defects per million). This technique has produced excellent results for Motorola, USA, where it was developed and experimented. Box 2.2 discusses the Six Sigma initiatives of the Indian company, Crompton Greaves Ltd.

Box 2.2
Six Sigma Initiatives at Crompton Greaves Ltd

Crompton Greaves Ltd bagged the CII-EXIM Bank 2010 Award for its business excellence framework including its quality initiatives. The important segment of business excellence practices of Crompton Greaves is its Six Sigma efforts (for “quality as perceived by the customer”). This company has a separate monitoring framework for a focused review of the Six Sigma practices with senior management participation. For instance, a core committee of all vice-presidents of the company, headed by the managing director, was created to oversee the Six Sigma initiatives when it was introduced in June 2002. Further, business unit heads were nominated as champions and asked to drive Six Sigma in their divisions. The first set of Six Sigma projects have been directed at the elimination of defects in products as reported by customers. In 2006–07, the Six Sigma initiative was restructured to speed up the drive to achieve the goal of all products meeting Six Sigma quality. The company has a software called Knowledge Management for Six Sigma (KMSS)[29] to monitor the entire cycle of a Six Sigma project.

Mergers and Acquisitions

The term "mergers" refers to the combination of two or more companies in which the assets and liabilities of the selling company are absorbed by the buying company. The term "acquisition" means the purchase of a plant, division or the whole of a company by another company. Mergers and acquisitions (M&A) are extensively used as a technique for restructuring business. The process of merger and acquisition has been on the rise in India in recent years. Since the introduction of economic reformist policies in 1991, Indian companies use M&A as a strategy to consolidate their business interests and also to counter increased competition in the global market.

VCCEdge, a financial research provider, reports that the M&A deal value during January 2010 alone stood at USD 2.8 billion, a whopping 126-per cent rise over the same period last year. Factors like technological changes, efficiency of operations, favourable economic and financial environments in the form of strong economic growth, rising stock prices and relatively low interest rates usually contribute to M&A activities.[22]

When organizations undergo mergers and acquisitions, it is the responsibility of the managers to keep the employees focused on their jobs. They should also ensure that the strategic business goals and plans are achieved. In this regard, managers must work purposefully to stabilize the organization, secure the confidence and cooperation of the employees of the firms involved in the merger process and sustain employee energy and performance over a long term.[23]

IT-enabled Outsourcing

In recent times, many changes in organizations are enabled by the developments in information technology (IT). Managements ensure maximum utilization of Internet-based IT-enabled services to improve organizational effectiveness and customer satisfaction. Business process outsourcing (BPO) is an important form of IT-enabled service. Organizations outsource some of their business activities such as call centres, back office operations, revenue claims processing, legal databases, content development, payrolls, logistics management, basic accounting or HR services and web services to reduce cost. This enables managers to deal with new forms of offices wherein part of the office work is performed in far-off places outside the office and is electronically managed. When IT-enabled services are introduced in organizations, managers initially act as change agents and perform the role of business change managers.[24] They then learn to manage employees in an IT-enabled environment.

With the advent of the knowledge process outsourcing (KPO) business, many Indian companies have entered the industry in large numbers. According to Evalueserve, one of the leading Indian KPOs, the knowledge process market in India is estimated to be worth anywhere between USD 2.5 billion and USD 3 billion per year. This is now estimated to grow up to USD 12 billion by 2012. This indicates the future prospects of this fast growing industry in India.[25] Managers in KPOs face tough challenges in satisfying and retaining their employees. It is hence necessary for them to provide an open work environment and facilitative leadership.

World-class Organizations

World-class Organizations (WCO) are those organizations that are recognized as global leaders in their respective industries having a dominant presence in the market. The general characteristics of WCOs are: (i) customer-centred approach, (ii) continuous improvements, (iii) flexibility, (iv) innovative programmes for HR management, (v) a democratic environment and (vi) technological support.[26] To make their organization world-class, managers should focus on continuous learning, total quality, customer satisfaction, customer relationship management, employee equality, cost reduction, simplicity and employee involvement.

Besides these trends, present-day managers are increasingly focusing on areas such as performance benchmarking, scenario planning (planning for several alternative futures), price optimization, core competencies (abilities that distinguish the company from its rivals and also delivering unique value to customers), customer segmentation, change management programmes, customer relationship programmes, satisfaction and loyalty management (employee, customers and investors satisfaction) and decision rights tools (giving the decision makers a sense of ownership of their decisions).[27]

Summary

1. The earliest texts on management are *The Duties of the Vizier*, Sun Tzu's *Art of War*, Confucius's *Analects* and Chanakya Kautilya's *Arthashastra*.
2. Approaches to management include: (i) classical approach, (ii) behavioural approach, (iii) systems approach, (iv) contingency or situational approach, (v) quantitative or operations research approach and (vi) information technology approach. F. W. Taylor's scientific management, Fayol's general administrative theory and Max Weber's bureaucratic management theory are the important contributions to the classical approach. The behavioural approach was greatly enriched by the Hawthorne studies of Elton Mayo.
3. The organizational environment is typically classified into internal environment and externalenvironment. Internal environment is formed by employees and shareholders besides organizational culture. External environment is classified into task environment and general environment. Task environment is formed by the actions of the customers, suppliers, competitors, distributors, trade unions and pressure groups. General environment is formed by social environment factors like technological environment factors, political environment factors, legal environmental factors, economic environmental factors and natural environment.

4. Recent trends in management include the emergence of knowledge management, Six Sigma practices, mergers and acquisitions, IT-enabled outsourcing, and world-class organization.
5. Knowledge management is the systematic and active management of ideas, information and knowledge in the employees of an organization.
6. Six Sigma is a business management strategy that seeks to achieve high quality standards by identifying and removing the causes of defects in manufacturing and business processes.
7. Merger refers to the combination of two or more companies in which the assets and liabilities of the selling company are absorbed by the buying company. Acquisition refers to the purchase of a plant, division or the whole company by another company.
8. World-class organizations are those organizations that are recognized as global leaders in their respective industries and have a dominant presence in the market.

Review Questions

Short-answer questions

1. Write a note on Sun Tzu's *Art of War*.
2. State the essence of bureaucratic management theory.
3. What do you mean by the contingency approach?
4. Define the term TQM.
5. What is the information technology approach to management?
6. Why is natural environment an important component of the organizational environment?
7. Point out the uses of knowledge management.
8. Examine the importance of Six Sigma as a quality enhancement initiative.
9. Write a note on IT-enabled outsourcing in management.
10. What do you mean by world-class organizations?

Essay-type questions

1. Describe the earliest stages in the history of management in brief.
2. Critically examine the contribution of F. W. Taylor to the development of management thought.
3. Explain the general principles laid down by Henri Fayol for effective management.
4. Discuss the importance of the Hawthorne experiment in the development of the behavioural approach in management.
5. Give a brief account of the significance of the systems approach to the study of management.
6. What is situational approach to management? State also the salient features of this approach.
7. Describe how the contingency approach is suitable for studying management.
8. Explain how modern managers can use the quantitative approach to management.
9. Discuss in detail the environmental factors influencing management.
10. Critically examine the recent trends in management with suitable examples.

11. Examine the meaning, significance and utility of knowledge management.

Case Study

Unchanging Management Practices in a Dynamic Environment

Kingstree, a consumer electronics and durables company, was once one of India's most high-profile companies and a market leader in the television industry with a sizeable market share. This company had featured among the top five TV brands of the country. The chairman of this company, Chakraborthy, strongly believed in the traditional family-centred organizational set-up with a tall structure for making well-planned and calculated decisions. This company had adopted the "primogeniture" method, that is, the method in which the eldest son is selected for the top managerial job. Many important managerial positions were also held by the family members of the founder chairman Chakraborthy. This company sourced technology from many foreign companies and had invested its funds in manufacturing facilities and several new ventures in unrelated areas that had long gestation periods. For long, Kingstree held the view that borrowing technology was a cheaper and wiser option when compared to developing technology through research and development (R&D) initiatives. The top management believed that large and continuous investments in R&D did not make any business sense. Kingstree diversified its business using borrowed technology with great success. During its zenith, Kingstree had many famous brands and also made a group profit of around ₹ 2,300 crore.

All was well for this company till the advent of economic liberalization in the early 1990s. The removal of the regulatory framework allowed large and leading global brands to enter the fray and give tough competition to all the existing Indian brands, including Kingstree. The rise of technologically superior and resourceful foreign companies created huge volatility in the market. In such a business environment characterized by intensified competition, the performance of Indian brands began to decline sharply. However, many domestic competitors of Kingstree quickly responded to this new and emerging situation and were able to stage a quick comeback through their more focused strategies and R&D initiatives. But Kingstree miserably failed to come up with a clear and coherent strategy to face the challenges. To make matters worse, Chakraborthy who had led the company for 30 years stepped down due to some family feud, handing the reins to his eldest son. The transition, especially its timing, did not go down well with many executives as they felt that the founder family's influence, interests and values have overriding importance in the company. Kingstree, which had already begun faltering, now faced the risk of being completely wiped out if it failed to cope witht the changes in its organizational environment caused by leadership transition as well as economic liberalization and globalization.

Questions

1. How do you assess the overall situation at Kingstree from the management perspective?
2. What needs to be done in the short and long terms to put Kingstree back on track?
3. In your opinion, what management styles may be suitable for this company to successfully cope with the changes in the external environment?

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CHAPTER 3

Social Responsibilities of Managers

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the term corporate social responsibility (CSR)
2. Enumerate the history and models of CSR
3. Elucidate the process of CSR
4. List the managers' responsibilities towards society
5. Understand the challenges in CSR implementation
6. Enumerate the essence of green management
7. List the types of managerial ethics
8. Explain the role and relevance of social audit
9. Provide an overview of corporate governance
10. Understand the need for a harassment-free workplace

India's Inspirational Managers

Satya Nadella is the Chief Executive Officer (CEO) of Microsoft Corporation- an American multinational technology company. In 2017, Microsoft employed 124 thousand people worldwide and generated $90.0 billion in revenue and $22.3 billion in operating income. The company's India born chief Nadella is a proponent of social and environmental responsibility. Under his humane leadership, Microsoft has been found to have the second best reputation for Corporate Social Responsibility (CSR) on 2017 global list released by Reputation Institute (RI), a Boston-based consultancy, which analyzed 170,000 company ratings across 15 countries. Microsoft was appreciated for its commitment to enhancing education globally and operating "an open-source platform that fosters perceptions of good citizenship and good governance. According to Nadella, corporate responsibility is both a responsibility and an opportunity to work together to advance societal needs and technology at the same time. At personal level, Nadella has keen interest in ensuring that Microsoft takes responsibility for making both its workplace and products accessible to the disabled. He also meets with the company's community group for disabled employees on a quarterly basis and speaks at its annual Ability Summit. Keeping the CSR initiatives of Microsoft under Nadella in the background, we shall now discuss the various dimensions of CSR in this chapter.

Introduction

Even in the ancient times, organizations have contributed for social prosperity. For instance, Aristotle has mentioned the need for business to reflect the interest of the society in which their operations are based.[1] Every manager must give back something to the society from which they benefited. It gives them knowledge, values, survivability skills, esteem and status. Without a supportive society, managers cannot operate, survive and thrive. Hence, as a member and beneficiary of the society, each manager has an obligation to take effective steps for protecting the society's welfare.

In the past, the sole aim of organizations was profit-making. Managers did not care for anybody other than their direct and immediate stakeholders. Traditionally, these stakeholders are business owners, management and employees. Organizations for long ignored the interest of other important members of the society like customers and general public. However, growing awareness among the managers about the benefits of the positive relationship between the fulfilment of social needs and long-term economic benefits of a firm changed their attitude.[2]

Organizations have realized that the labour, capital, technology and physical resources are all supplied by the society alone. Consequently, managers have begun to fulfil their social obligations in their own way. However, these managers may do so out of legal compulsion, popular social pressures, or genuine concern for the well-being of the society. We shall now discuss each of these three reasons.

1. **Legal compulsion (social obligation)**—Legal frameworks compel companies to perform their social responsibility. The Government of India has enacted several legislations to persuade unwilling organizations to discharge their social responsibilities. For instance, the Ministry of Environment and Forest of the Government of India had issued a Charter on Corporate Responsibility for

Environmental Protection (CREP) in 2003 for 17 categories of industries. This charter deals with conservation of water, energy, recovery of chemicals, reduction in pollution, elimination of toxic pollutants, process and management of residues by the respective industry. Legal compulsion may become necessary when social responsibility gets little attention in corporate policies, practices and strategies.

2. **Popular social pressures (social responsiveness)**—Corporate responsiveness to social pressures is also a form of corporate social responsibility. While managing relationship with the society, an organization may adopt any one of the three management approaches—tactic, strategic or no action.[3] The specific course of action is usually decided on the basis of the organization's perception of the social pressures. A demand for community development from the public or an environmental issue like pollution, health hazards is an example of social pressure. When the management adopts tactical or strategic approach that aims at fulfilling social needs or relieving social pressure, it is usually called social responsiveness. The management may also decide not to act on such social pressures.
3. **Genuine concern for the well-being of the society (social responsibility)**—While discharging social responsibility, organizations may also be guided by their own desire to behave ethically and contribute genuinely to the economic development of the workers and their families, local communities as well as the society. Managers carry out community welfare activities without any demand or pressure from any section of the society. Organizations of this type normally have strong core values that guide their approach towards society, environment, etc. For instance, TNT express, an Amsterdam-based logistics company, is known for its socially responsible behaviour. It runs a programme called "moving the world," which involves keeping a group of 50 employees in standby mode at its head office in Amsterdam. The task of this group is to reach out to the people affected by disasters anywhere in the world within 48 hours of the occurrence of the disaster.

Corporate Social Responsibility

Corporate social responsibility (CSR) expects a business to be a good corporate citizen by fulfilling its social responsibilities voluntarily. In fact, CSR is an organization's moral responsibility to engage in activities that protect and promote the welfare of the society. It is also an organization's obligation towards people who are affected by its actions and decisions. CSR expects organizations to go beyond their legal requirements in serving the society with their resources. Based on their attitude and actions concerning social responsibilities, organizations can be classified into four categories. They are: (a) legal and responsible, (b) legal and irresponsible, (c) illegal and responsible and (d) illegal and irresponsible. We shall now look at some examples for each of these four categories.

- **Legal and responsible**—In the 1970s, the Tata group amended its articles of association to make the group always mindful of its social and ethical responsibilities to the customers, employees, shareholders, society and the local communities.
- **Legal and irresponsible**—Advertisements of liquor companies that encourage liquor consumption.
- **Illegal and responsible**—Greenpeace activists dressed as tigers blocked the gates of Shastri Bhawan, which houses the Ministry of Coal, demanding that forests in Central India be saved from coal mining.
- **Illegal and irresponsible**—Some dyeing units in Tirupur district of Tamil Nadu discharged their effluents directly into the earth by sinking pipes deep down the earth, thus causing large-scale ground water pollution.

CSR is, in fact, a form of corporate self-regulation that ensures that organizations comply with the spirit of the legal and ethical standards, and international norms. Through CSR, organizations take the responsibility for their action and also make sure that such actions create a positive impact on the consumers, employees, communities, environment and other stakeholders.

Definitions of Corporate Social Responsibility

The definitions of CSR, in essence, discuss the responsiveness of businesses to the expectations of stakeholders and their attempts to develop a positive impact on the stakeholders through their actions. We shall now see the definitions of social responsibility and CSR.

"Social responsibility can be defined as a business intention beyond its legal and economic obligations to do the right things and act in ways that are good for society." —R. A. Bucchoiz.[4]

"Social responsibility of the business encompasses the economic, legal, ethical and discretionary expectations that the society has of organization at a given point of time." —Archie B. Carroll.[5]

"Corporate social responsibility is the organization's obligation to maximize its positive impact and minimize its negative effects in being a contributing member to society, with concern for society's long-term needs and wants." —G. P. Lantos.[6]

"Corporate social responsibility is about the way businesses take account of their economic, social and environmental impacts in the way they operate—maximizing the benefits and minimizing the downsides." —Nigel Griffiths.[7]

We may define CSR as an obligation of an organization to the society to improve the quality of life of the community in general and the stakeholders of the business in particular.

Features of Corporate Social Responsibility

The basic features of corporate social responsibility are as follows:

1. CSR is an obligation of an organization to the society and its stakeholders.
2. It involves the adoption of corporate behaviour to meet the social needs and thus render social justice.
3. It aims at improving the quality of life of its stakeholders such as workers and their family members as well as the local community.
4. Organizations can fulfil CSR for both business causes (like building business profits and reputation) and normative causes (like meeting social expectations and norms).
5. CSR activities of an organization include donations, sponsorships, partnership with non-profit organizations, cause-related marketing (i.e. promoting a company's product as well as raising money for a common cause), investment in social responsibility-related activities, etc.[8]

Brief History of CSR

The history of CSR can be traced back to the Industrial Revolution era. When Industrial Revolution arrived, it brought with it factories. These factories are actually centralized workplaces where unrelated people come together and work as a group. This has brought about tremendous changes in the social structures, communities and standard of living of the people. From this beginning, CSR has travelled through different phases of history. We shall now go on a brief journey through different centuries to see the progress made by CSR over a period of time.

CSR in the 18th Century

During the 18th century, the great economist and philosopher, Adam Smith, suggested that the needs and desires of the society could be met effectively through free interaction between individuals and organizations in the marketplace. He further suggested that the individuals acting in a self-interested manner would produce and deliver goods and services that not only earn them a profit, but also meet the needs of others. He also insisted that all marketplace participants should be just and honest in their interactions with others. This period also saw some employers executing social welfare measures out of their own interest and humanitarian concerns. For instance, companies like Cadbury and Rowntree constructed model villages for the benefit of employees and their family members. They also engaged industrial welfare workers to take care of employee welfare.

CSR in the 19th Century

CSR is described as a baby of the 19th century by some subject experts.[9] This century witnessed the advent of new technologies. It has resulted in the creation of a large number of jobs and improved living standards. With little or no government interventions, business houses grown big in many countries such as the USA and the UK. As a result, many industrialists became very wealthy and they began to think in terms of giving back something to the society from which they benefited. As a result, modern corporations commenced their CSR activities with a twin-fold objective of: (i) expressing their gratitude and (ii) investing for future business benefits and goodwill. Around this period, employers such as Lever brothers, Great Western Railways, UK, and many other progressive employers viewed their business as big families and provided their employees with community facilities, good houses and libraries.[10]

CSR in the 20th Century

The 20th century has made important contributions to the growth of CSR. During this period, the social responsibilities of business houses began to be formalized and institutionalized. For instance, the Harvard Business School offered its first course on ethics in 1915. Governments of various nations also established regulatory agencies for shaping CSR benchmarks and monitoring its implementation. Social issues like labour rights, occupational health and safety, and women’s rights dominated the CSR practices of this century. Besides, consumer protection and education, child welfare, environmental protection and corporate transparency also emerged as important themes of CSR in the latter half of this century. Towards the end of this century, some researchers concluded that they found no positive relationship between CSR activities and profit.[11]

CSR in the 21st Century

The social responsiveness of organizations became their social responsibility during the 21st century. In this century, CSR has emerged as a distinctive movement and a global issue.[12] The globalization of economy has made CSR a mainstream activity. Business organizations have also replaced *ad hoc* initiatives with concrete corporate plans for implementing CSRs. Certainly, the strategic integration of CSR and business objectives is the unique feature of this century.[13] This is because entrepreneurs have realized that "what is good for workers—their community, health, and environment—is also good for the business." In India, corporations focus on social issues like ecological concerns, poverty, population growth, pollution, corruption, and illiteracy as a part of their CSR agenda. Box 3.1 discusses the CSR programmes of IOC.

However, CSR-related mandatory regulations and laws are opposed by some organizations on the ground that they impose unnecessary cost and also kill competition and innovation.[14] Similarly, lack of understanding, inadequately trained personnel, non-availability of authentic data and specific information on the kinds of CSR activities required are the common problems that affect the effectiveness of CSR programmes in India.

Models of CSR

Based on the attitude of business organizations towards profit maximization and social responsibilities, researchers have developed three major models of CSR. They are: (i) socio-economic model, (ii) stakeholders' model and (iii) triple bottom-line model.[15] Let us discuss them briefly.

1. **Socio-economic model**—This model maintains that the only responsibility of any business is to supply goods and services to the society at a profit. The proponents of this model consider profit as the only criteria for measuring the efficiency of a business. They also

view the social involvement of business as an expense and overemphasize the cost of social involvement.

2. **Stakeholders' model**—This model views business as a part of the larger society. Besides achieving economic results, such as profit, managers must also fulfil the needs of the stakeholders of the business. The stakeholders are of two types: market stakeholders and non-market stakeholders.

   Market stakeholders maintain direct economic transactions with the business. They include employees, shareholders, suppliers, customers and lending agencies. In contrast, non-market stakeholders do not engage in any direct economic exchange with the business organization. However, they are often affected by or affect the actions of the organization. They include general public, NGOs, media, activists, environmentalists and governments.

   According to the stakeholders' model, managers must always remember that the success of the company can be affected positively or negatively by its stakeholders. Since the stakeholders can be precisely identified by the organizations, their needs and requirements can be effectively considered while making decisions.

3. **Triple bottom-line model**—According to this model, the success of a business should be measured only in terms of its financial, environmental and social performances (triple bottom lines). Long-term, sustainable profit can be achieved only when a business firm follows shared objectives instead of single objective, namely, profit. This model suggests that a positive triple bottom-line performance can help organizations in many ways. For instance, it can improve the profitability, shareholders' value, human capital, environmental capital and social capital of the company.[16] Box 3.2 shows the triple bottom-line approach of Tata Power.

Box 3.1
CSR Initiatives by Public-sector Giant IOC

The CSR initiatives of the Indian Oil Corporation (IOC) present an interesting example. IOC has been carrying out CSR activities right from its inception in 1964. The inclusion of CSR goals in its mission statement clearly indicates the importance accorded to such activities by this company. Every year, IOC has been awarding petrol/diesel station dealerships and LPG distributorships to beneficiaries from among Scheduled Castes, Scheduled Tribes, physically handicapped, ex-servicemen, war widows, etc. on priority basis. The CSR activities of IOC also include: (i) medical/health camps on family planning, immunization, pulse polio, eye testing and blood donation, pre and post-natal care, homeopathic medicine, programmes on AIDS awareness, etc.; (ii) 50-bed Swarna Jayanti Samudaik Hospital, Raunchi Bangar, Mathura, Uttar Pradesh; (iii) 200-bed hospital set up by

Assam Oil Division, IOCL, at Digboi, Assam; (iv) Assam Oil School of Nursing, AOD, Digboi; (v) Indian Oil Rural Mobile Health Care Scheme; (vi) Indian Oil Educational Scholarship Schemes and (vii) Indian Oil Sports Scholarship Scheme. Further, the Indian Oil Foundation (IOF), a non-profit trust, was created in 2000 to protect, preserve and promote the national heritage, in collaboration with ASI and NCF of the Government of India.[35]

CSR Process

Organizations generally adopt a series of steps for integrating their societal and environmental concerns with their operational plans and objectives. As illustrated in Figure 3.1, CSR initiatives are usually carried out through a three-stage process. They are: (i) commitment, (ii) strategy development and (iii) implementation and control. We shall now discuss them briefly.

1. **Commitment**—While deciding the CSR goal and strategy, it is essential for managers to ascertain the firm's philosophy and attitude towards the society. In this regard, they can check the vision and mission statements that usually state an organization's social and ethical concerns. The overall corporate objectives can also help managers in understanding the firm's attitude and commitment towards the society. Further, companies can also examine their external environment to identify the challenges and threats (e.g. possible damage to the firm's reputation or government intervention) and opportunities (e.g. increased resource availability or employee motivation).[17] For instance, the absence of civic amenities, poor infrastructure facilities, high illiteracy, corruption, malnutrition, gender inequality, pollution and poverty are a few examples of societal problems. These problems may or may not be the outcome of organizational activities. For instance, emissions by a company's factory may pollute the air and water resources of its neighbouring locality. In contrast, societal issues like gender inequality and illiteracy may exist independent of the company's actions.
   Once societal problems are identified, companies should choose the specific issues to be addressed. For instance, a company may decide to reduce the problem of high female illiteracy by funding women-specific educational activities. Sometimes, companies may feel it necessary to incorporate their social responsibilities in corporate objectives, vision and mission statements as a way of acknowledging them.
2. **Strategy development**—In this phase, CSR commitment of the company takes a concrete shape. The firm now develops strategies for fulfilling its commitment. While doing so, it normally takes into consideration the stakeholder priorities, nature and intensity of the issue, methods of support required and existing practices/policies. At this stage, companies usually develop medium- and long-term plans and programmes with specific targets. They also mobilize

necessary resources and prepare the exact procedure to be followed for implementation.

3. **Implementation and control**—This is the crucial stage in the CSR process. At this stage, CSR plans are communicated to the stakeholders. Effective involvement of stakeholders are achieved through continuous dialogue. The successful CSR practice benefits both the society and the company. For instance, the society may become a better place to live in with CSR intervention. The company may also gain in terms of increased goodwill, public image and better acceptability of the company by the public.

CSR involves resource allocation and spending, it is therefore necessary for companies to monitor all the phases of the CSR process carefully and thoroughly. In this regard, companies can gather necessary feedback from the stakeholders and act on them promptly.

Box 3.2
Triple Bottom-line Approach of Tata Power

The CSR initiatives of Tata Power present an interesting scenario. Tata Power has adopted guidelines formulated by the Global Reporting Initiative (GRI) for its sustainability reporting. The GRI guidelines encompass the triple bottom-line (TBL) approach, which focuses on financial, social and environmental performance. Using these guidelines, Tata Power can report its performance on 79 parameters in these three core areas. Tata Power prepared its first Corporate Sustainability Report in 2003, according to the GRI 2002 guidelines for the period 1 April 2002 to 31 March 2003. The second report titled, “Responsible Growth & Beyond,” for 2008–09 was published in December 2009 according to the new GRI G3 guidelines. The company has declared its intent to report its sustainability performance every two years.[36]

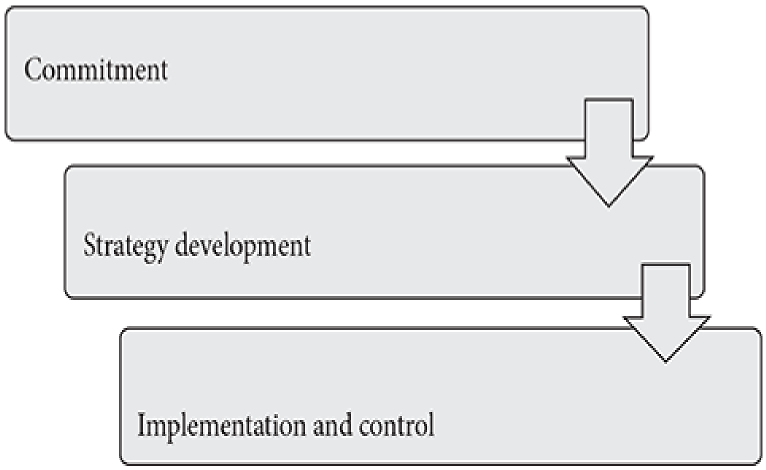

Figure 3.1
The Process of CSR

Managers' Responsibility Towards Society

CSR is a voluntary business contribution to the development of the society. It thus requires managers to assume multiple social responsibilities. As seen in Figure 3.2, these responsibilities can be classified into: (i) responsibility towards owners, (ii) responsibility towards employees, (iii) responsibility towards consumers, (iv) responsibility towards governments, (v) responsibility towards the general public and (vi) responsibility towards nature.

These social responsibilities can create an impact within as well as outside the company. We shall now discuss the various responsibilities of managers towards different segments of the society.

1. **Responsibility towards owners**—The responsibility of managers towards their owners is an economic responsibility. Managers are expected to ensure that the owners and shareholders get adequate returns (profit) from the business. Further, the quantum of profit earned in the business should be in proportion to the risk levels of the business. Managers must also ensure that the assets of the business are fully utilized and protected.

   Managers must present a true picture of the company's position to the owners. They should also treat equally the different categories of owners like equity shareholders, preference share holders and debentures. Managers should always keep in mind the stability of the business enterprise while making decisions. They must also make sure that the organization continuously grows and the owners gain from such growth. In brief, owners must have: (a) capital protection, (b) profit maximization, (c) business stability and growth, (d) access to accurate information and (e) equality in treatment.

2. **Responsibility towards employees**—Managers' responsibility towards employees has economic, legal and ethical dimensions. Managers must provide adequate monetary and non-monetary rewards for the work done by the employees. They should also ensure that the employee selection and promotion processes are just and fair. Employees must be given sufficient opportunities for learning through educational and training programmes at the company's expense. Employees must also have individual dignity, job security, job autonomy, psychological support and opportunities for participation in management.

   Managers must ensure clean, pleasant and healthy work conditions for employees. They should evaluate employee performances systematically and objectively. In a nutshell, employees should have: (i) job security, (ii) adequate remuneration, (iii) productive training, (iv) objective performance evaluation and (v) safe and healthy working conditions.

3. **Responsibility towards consumers**—The support of the customers is critical to the survival and growth of any business. Managers, hence, have some Important responsibilities towards consumers. They must make available adequate quantity of desired quality goods and services at reasonable rates. They must also provide prompt and dependable service to their customers. They must provide effective after-sales services. They should also attend to the customer complaints promptly and sincerely.

   Managers should desist from unfair trade practices such as hoarding, adulteration, black marketing, etc. In short, consumers must have: (i) products in desired quality and quantity, (ii) products at fair and just prices, (iii) efficient after sales services and (iv) prompt response for their complaints.

4. **Responsibility towards governments**—The primary responsibility of managers is to ensure that the operations of the business are carried out well within the legal framework, as specified by the government. Managers must also respect the specific rules, guidelines, regulations and norms laid down by the government from time to time. Further, they should pay all the taxes, dues and duties payable to the government fairly and regularly. They should also furnish statutory information about the company (like copy of the balance sheet, etc.) in a true and fair manner to the registrar of companies. In brief, their responsibilities are: (i) observing rules and regulations, (ii) paying taxes and duties and (iii) furnishing true information.
5. **Responsibility towards the general public**—The quality of relationship that an organization has with the general public is crucial to its success. Managers should work systematically to gain public confidence, goodwill and also a positive business image. They must learn to respect the sentiments, beliefs, values and ethos of the people in the community. They should care for the health and safety of the public in general and the neighbours in particular. For instance, Tata Steel educates people about leprosy through advertisements in newspapers and magazines as a part of its health awareness programme.
6. **Responsibility towards nature**—Of late, environment protection is emerging as an important management practice**.** There is growing awareness among managers about their role and responsibilities in protecting nature due to problems of climate change like global

warming, ozone depletion and acid rain. In this regard, organizations must be socially more responsible in their release of pollutants that can affect air, water, etc.[18] Managers should also avoid the activities that can harm the flora and fauna, and animal and human life. Further, they should avoid activities that cause destruction of heritage structures such as historical buildings, monuments, etc.

Figure 3.2
Managers' Responsibility Towards Society

Challenges in the Implementation of CSR

Usually, CSR has a different meaning for different managers depending on their organizations' philosophy, attitude and environment. But many managerial experts now begun to accept CSR as a tool to achieve the objectives of profit, environmental protection and social equality. The following factors have enhanced the importance of CSR: (i) limited state resources, (ii) increased stakeholders' interest on organizations' social and ethical responsibilities, (iii) legal requirements for corporate disclosure and (iv) changing expectations of the public about corporations. Despite these developments, it is a sad fact that CSR is yet to gain widespread recognition and popularity in India. According to the results of a survey conducted by *The Times of India* group, the slow pace of growth in CSR activities by companies can be attributed to the following challenges:[19]

1. **Absence of active community involvement in CSR activities**—The following factors have resulted in the poor support for CSR and public participation: (a) poor communication between the sponsoring company and members of communities, (b) little or no public awareness about the role and relevance of CSR in community development and (c) people's indifference towards CSR projects.
2. **Absence of local capacities and well-organized NGOs**—It is difficult for companies to directly involve themselves in community development projects. Companies therefore seek the cooperation and involvement of local NGOs with adequate manpower. However, most NGOs operating from rural and remote areas lack necessary trained workforce and infrastructure to effectively contribute to the CSR activities initiated by them. This lack of capacity building by local NGOs prevents companies from undertaking large CSR projects in rural, tribal and other remote regions.
3. **Lack of transparency**—Most NGOs are reluctant to disclose information about their existing programmes and capacities, to companies willing to join with them for implementing CSR projects. This lack of transparency on the part of NGOs normally creates trust deficit and affects their ability to work closely with the companies.
4. **Perceptual differences**—Companies and communities often differ in their perception of the CSR initiatives. NGOs often think CSR projects as donor-driven projects and expect companies to take overall responsibility in the long run. In contrast, the companies view CSR initiatives as a local-driven approach with their role restricted to that of major donor. These perceptual differences often affect the long-term viability of the CSR projects.
5. **Lack of clear-cut guidelines and policies**—The absence of clear-cut governmental guidelines relating to CSR activities to be undertaken by companies has reduced CSR's importance among companies. As of now, the scale of CSR initiatives of companies depends on their business size, profile and philosophy.
6. **Absence of unified approach in CSR implementation**—When more than one company undertakes CSR activities in the same area, duplication of activities often occurs in those areas. This mostly happens because of lack of coordination among local collaborators of companies responsible for CSR activities. Further, unwarranted and unhealthy competitions often result in the wastage of resources.
7. **Desire to gain quick popularity**—NGOs and other local agencies involved in CSR initiatives, at times, engage in event-based programmes just to gain media attention and quick popularity. Such NGOs often ignore the long-term interest of the communities.

Through better strategies, companies can overcome the challenges in the implementation of CSR initiatives. Companies should realize that the successful discharge of their social responsibilities will enable them to reap the benefits of: (i) improved public acceptance, brand image and reputation, (ii) enhanced sales and customer loyalty, (iii) increased ability to attract and retain efficient workforce and (iv) better recognition and patronage from capital holders.

Green Management

Managerial practices that help in the preservation of natural environment is called green management. The term, green, here implies the protection of people's health through the use of natural products and nature friendly technology. Haden and others define green management as, "an organization-wide process of applying innovation to achieve sustainability, waste reduction, social responsibility and a competitive advantage via continuous learning and development."[20]

Generally, green management initiatives require managers to ensure that they: (i) reduce the negative environmental impacts, (ii) comply with the environmental regulations, (iii) adopt appropriate environmental management system and (iv) publish corporate social responsibility reports regularly and sincerely. The extent of green management initiatives of the management can be measured through one or more of the following criteria:[21]

- **Product criterion**—The organization's initiatives and record in the production of environmentally friendly products. Non-polluting and recyclable products (glass, paper, etc.) are examples of these products.
- **Technology criterion**—This refers to the extent of employment of clean technology in the manufacturing process of the organization. It may involve the adoption of production or assembly processes that cause little or no harm to the environment. Technologies that cause minimum wastage or pollution such as wind power and solar power technology are examples of clean technologies.
- **Business ethics criterion**—This refers to the adoption of philosophies, policies, practices and procedures by an organization that foster environmental ethics, values and goodness. Box 3.3 shows the green management initiatives of ITC.

As a part of a green management initiative, managers must undertake specific environmental programmes to educate their employees, customers and other stakeholders on the need for and importance of protecting nature. They must also continuously carry out innovations in: (i) products (like developing new products or creating new uses of existing products), (ii) processes (that operate with less output) and (iii) practices (like total quality management).

Managerial Ethics

Ethics, in simple terms, refers to the moral codes that govern the behaviour of the people and also tell them what is right or wrong. Managerial ethics, in turn, are the set of standards that dictate the conduct of the managers when performing their job. They also regulate the internal and external behaviour of the managers. Specifically, ethical codes guide the behaviour of the managers in a decision-making scenario. They help managers evaluate the ethical quotient of their decisions and decide whether their decisions are ethically right or wrong. Managerial ethics are typically different from legal rules as ethical codes are formed by an organization just to guide its own members. Hence, ethical codes need not be the same for all organizations or cultures.

Box 3.3
Green Management Initiatives of ITC

To go green, a company's senior management and employees must have belief in the philosophy of green management. ITC's green initiative is a case in point.

The 170,000 sq. ft, ITC Green Centre is the world's largest zero-per cent water discharge, non-commercial green building. Compared to similar buildings, ITC Green Centre has 30 per cent smaller carbon footprint. ITC has a unique forestry programme to help small and marginal tribal farmers to transform their wastelands into dense plantations. The programme has rejuvenated more than 29,230 hectares of wasteland, generating livelihoods for over 20,000 people and making a substantial contribution to India's green cover. Using ITC's Internet stations in villages, it has also launched a programme called the e-*Choupal programme* to enable the farmers to log on to the ITC-created vernacular Web sites that provide weather forecasts, expert advice on the best farming practices and local, national and international agricultural commodity prices online. The initiative reaches out to over 3 million farmers living across several states.[37]

Organizational policies, principles, culture and value system usually shape managerial ethics. Ethical codes enable managers to know in advance whether their actions are in conformity with the accepted behaviour or choices. They also outline the duties and responsibilities of managers towards the company's stakeholders like employees, shareholders, creditors, vendors, distributors, customers, etc. Managerial ethics are typically classified into principle-based ethical codes and policy-based ethical codes.[22] Principle-based ethical codes define the basic values of the organization and also include general details of the company's responsibilities, quality of products and treatment of employees. Policy-based ethical codes describe the procedures to be used in specific ethical situations. These situations may arise when managers face conflicts of interest, ethical dilemma in the observance of laws, etc.

Definitions of Ethics

Ethics oversees the conduct and actions of people. Let us now look at a few definitions of the term.

"Ethics are the principles of conduct governing an individual or a group." —Manuel Velasquez.[23]

"Ethics is a set of moral principles that govern the action of an individual or group." —Appleby.[24]

"Ethics is a set of standards or a code or a value system worked out from human reason and experience by which free human actions are determined as ultimately right or wrong, good or evil." —P. S. Bajaj and Raj Agarwal.[25]

Types of Ethics

Ethics can broadly be classified into three types, namely descriptive ethics, normative ethics and interpersonal ethics. A brief explanation of these terms is provided here.

Descriptive ethics—It is mostly concerned with the justice and fairness of the process. It involves an inquiry into the actual rules or standards of a particular group. It can also mean the understanding of the ethical reasoning process.[26] For instance, a study on the ethical standards of business executives in India can be an example of descriptive ethics.

Normative ethics—It is primarily concerned with the fairness of the end result of any decision-making process. It is concerned largely with the possibility of justification. It shows whether something is good or bad, right or wrong. Normative ethics describes what one really ought to do and it is determined by reasoning and moral argument.[27]

Interpersonal ethics—It is mainly concerned with the fairness of the interpersonal relationship between the superior and the subordinates. It refers to the style of the managers in carrying out their day-to-day interactions with their subordinates. The manager may treat the employees either with honour and dignity or with contempt and disrespect.

Ethical Dilemmas in Managerial Decisions

While making decisions, managers consider four dimensions to evaluate their decisions. They are: (i) instrumental dimensions which involve cost–benefits analysis, (ii) relational dimensions which involve the analysis of the impact of the decisions on the future relationship with the stakeholders, (iii) internal dimensions that focus on the impact of decision on internal capabilities of the firm and (iv) ethical dimensions which refer to the evaluation of the ethical dimensions of the decisions, i.e. whether the decisions are good or bad, right or wrong, etc.[28]

Managers often face ethical dilemmas while making decisions in the course of their business operations. They feel the ethical pressure when they deal with tricky situations that may result in the violation of basic rights of the workers, overlooking the environmental concerns, etc. Managers may override the ethical dimension of their decisions when it involves higher costs, delayed outcomes, uncertain consequences, and negative personal implications. Managers may also resort to unethical behaviour when they strongly believe that: (i) good business more important than good ethics, (ii) political success and economic improvement are more valuable than ethical behaviour, (iii) opportunities can take precedence over ethical issues and (iv) there is low risk of getting caught while being engaged in unethical behaviour.[29]

However, when managers consistently apply ethical principles, they stand to gain from their ethically sensible decisions. The long-term benefits of making such ethical decisions include: (i) better business and brand image, (ii) improved employee motivation and morale, (iii) availability of cheaper sources of finance from ethically conscious investors and (iv) enhanced business revenues.

Need for Ethical Policies and Codes

There has been an increased importance among companies to have strong ethical policies and codes. We shall now discuss the need for ethical policies and codes in an organization.

- Code of ethics will enable an organization to create an ethical workplace. Each employee will understand clearly the standard of behaviourv and values of the organization.
- Of late, organizations have fewer levels of management and are pushing decision-making down to line managers. As a result, any decision by an immediate superior can be viewed as personal and subjective by the subordinates and this situation may call for strict adherence to a code of ethics.
- The growing presence of knowledge workers in organizations has necessitated the introduction of strong ethical policies as they are more likely to violate laws and the code of ethics as compared to the earlier generation of workers.
- Visible ethical policies and code can send a clear signal to the employees that the organization is serious about ethics and that it will make no compromise when it comes to dealing with ethical standards and violation.
- Ethical policies will enable managers to evaluate quickly their proposed actions with the company’s code of conduct to determine whether they fit the existing ethical standards.
- Generally, the public image for companies that practice ethical values will be high in the society. As a result, consumers will keep their trust in those companies that ensure fairness in their dealing with the people. Similarly, ethical companies can also attract the best candidates in the labour market with ease.

Thus, it is important for each organization to have a strong code of ethics that focuses on business practices and specific issues such as conflict of interest, accuracy of information, prevention of harassment, safety and environmental compliance. Managers should be the model of ethical behaviour so that employees follow it willingly and voluntarily.

Social Audit—Role and Relevance

Social audit is a relatively new phenomenon for the Indian companies. It is an instrument used to verify the social accountability of organizations. It assesses the performance of the organizations in terms of fulfilment of social, environmental and community goals. It measures the social relevance of organizations by systematically monitoring their chosen social objectives. Certainly, social audit aims at ensuring that firms report their performance relating to social goals regularly. The legislations connected with social audit in India are: (i) Right to Information (RTI) Act, 2005, (ii) National Rural Employment Guarantee Act (NREGA), 2005 and (iii) the 73rd amendment of the Indian Constitution relating to Panchayat Raj institutions that empowered *Gram Sabhas* to carry out social audits.

Social audit is a continuous process and carried out at periodic intervals. It involves reviewing an organization's social activities to decide whether such activities truly benefit the society. Social audit normally deals with issues like environmental protection, equal opportunity, ethical issues, quality of work life and consumerism. Ethical issues include unfair trade practices, labour rights violation, human rights violation, etc. As a part of the auditing process, the social auditor normally examines the corporate policies, procedures, practices and departmental guidelines to see whether they comply with the governmental rules and regulatory requirements.

Definitions of Social Audit

A careful verification of social accounting records of an organization is the essence of the definitions of social audit. We shall now see a few definitions of social audit.

"Social auditing refers to the process of identifying, analyzing, measuring, evaluating and monitoring the impact of an organization's operations on different stakeholders." —Sage Publications.[30]

"Social audit is an enquiry into the corporate social accounting records by an outside agency that can opine with a view to attestation and authentication of reports and records." —John Crowhurst.[31]

Objectives of Social Audit

Social audits carried out by organizations are expected to fulfil the following objectives:

- To improve the efficiency of community development programmes and projects of organizations.
- To create better awareness among the participants such as the beneficiaries and project managers about the importance and benefits of social programmes of the firm.
- To identify the gaps between societal needs and resource availability of organizations.
- To check the effectiveness of existing organizational policies, practices and procedures in fulfilling the social responsibility of firms.

Types of Social Audit

Social audit, can broadly be classified into six types. They are: (i) social balance sheet and income statement, (ii) social performance audit, (iii) macro–micro social indicator audit, (iv) constituency group attitudes audit, (v) government-mandated audits and (vi) social programme management audit.[32] We shall now discuss them briefly.

1. **Social balance sheet and income statement**—This is similar to the financial balance sheet and income statement. It reveals the costs and benefits of social investment to organizations. However, this type of social audit does not have universal applications because it lacks generally accepted accounting standards and guidelines.
2. **Social performance audit**—This audit involves critical examination of the social performance of organizations. The purpose behind this audit is to make future social investments of an organization productive, relevant and timely.
3. **Micro–macro social indicator audit**—This is basically a quantitative audit. As a part of this audit, the quantifiable social performance of a particular year is compared with that of another year to see the company's progress during that period. This is a micro-social indicator because the assessment involves a single company alone. When the quantifiable social performance of an organization is compared with that of another organization or even with that of the whole industry, it is called macro-social indicator audit. The social indicator may involve an organization's investments on social projects that aim at enhancing the health and safety or education of the members of the community.

4. **Constituency group attitudes audit**—Constituency group refers to stakeholders who regularly interact with an organization. This audit primarily focuses on identifying and measuring the stakeholders' expectations so that their social pressures on the organization are effectively handled.
5. **Government-mandated audits**—These types of audits are normally carried out by organizations in deference to governmental regulations and judicial pronouncements.
6. **Social programme management audit**—This audit aims at evaluating the effectiveness of specific programmes of organizations. This audit looks at examining the outcome of social programmes including the effectiveness of the process involved in the implementation of such programmes.

Even though corporate social audits are still in the infancy stage in India, their importance will increase in the future for a variety of reasons. For instance, social audits can help organizations determine the social objectives and budget allocations. They are also capable of improving the reputation and credibility of the sponsoring organizations among the general public. Lastly, they can fine-tune the policies and programmes that guide the social performance of organizations.

Corporate Governance—An Overview

Corporate governance involves a just, fair, efficient and transparent administration of the organization. It emphasizes on the transparency of the decision-making process and fairness in managing the affairs of the company. Corporate governance, gained importance after the ownership and management of companies were separated. Professionals are now engaged to manage companies on behalf of the shareholders. Through proper corporate governance, managers are expected to ensure the satisfaction of all stakeholders by properly structuring, operating and controlling the organization. Corporate governance is actually a system or procedure on how the managers are responsible to their stakeholders. It defines the relationship between a company's management and its stakeholders, and also improves their mutual trust.

A high-level finance committee report on corporate governance in Malaysia[33] makes it amply clear that corporate governance focuses on:

- accountability of management
- continuously improving corporate performance
- transparency in administration

- investor protection and value enhancement
- equitable treatment of stakeholders
- adequate information disclosure and dissemination
- statutory and legal compliance
- ethical and value-based management
- self-evaluation

As a system, corporate governance looks to create trust and confidence among the different stakeholders of the business even if they have competing and conflicting interest. For instance, shareholders and employees usually have a competing claim over the financial resource (like profit) of the business. When employees succeed in their demand for higher remuneration, the profitability and returns available to the shareholders get smaller. In contrast, shareholders get more when employees are paid less. Besides, corporate governance, as a system, focuses on minimizing the operational and financial risks and on managing the changes efficiently. It also attempts to ensure right culture and right focus for the organization.

Managing Sexual Harassment

Indian companies are now a much more diverse place than what they were earlier. Several organizations have made a conscious decision to create gender equality by recruiting more women as part of gender diversity initiatives. Now, there is a growing representation of women to the total labour force of the country. This has positive implications for women empowerment, economic growth and GDP. According to McKinsey Global Institute, India can increase its GDP by Rs 51.50 lakh crore by 2025 by getting more women to work and increasing equality. Due to the increasing presence of women population, it has become essential for organizations to ensure that women are safe in their workplace. Besides ensuring physical safety and security of women employees, managers should make them feel that they work in a harassment-free workplace. This requires managers to promptly address their concerns/complaints about sexual harassment at workplace.

Managers must understand that creating a harassment-free workplace is not a choice but an obligation for them. Managers should also understand the importance of creating a positive work environment where women's right to equality, life and liberty is fully respected, protected and promoted. This is because the fear of harassment may force women to stay away from jobs resulting in low female workforce participation rate.

Managers must take every possible step to protect women employees from sexual harassment by undertaking adequate awareness campaigns and through punitive actions, if such incidents are reported. The harassment related complaints need to be dealt with skill, maturity and compassion by managers. On its part, the state has enacted the Sexual Harassment of Women at the Workplace (Prevention, Prohibition and Redressal) Act 2013. The primary objective of the Act is to ensure that women feel safe in their workplace and to promote a positive work environment for their greater and effective participation in the work ecosystem.

Top managers should ensure their organization's compliance with the requirements of this Act. They should also implement the mechanisms needed as per its provisions. The introduction of the act requires the establishment of mechanisms such as the Internal Complaints Committee. This Act places a greater accountability on the employer and top managers with regard to providing a safe work place for women. It also legally requires the companies to ensure the (i) organisation of capacity and skill building programs for the internal complaints committee, (ii) implementation of awareness programmes for all employees, and (iii) listing of penalties and fines.

The Sexual Harassment of Women at the Workplace (Prevention, Prohibition and Redressal) Act 2013 requires fundamental changes in governance frameworks, compliance program and instrumental change in operational ethics and integrity.

Summary

1. CSR is an obligation of the organization to the society to improve the quality of life of the community, in general, and the stakeholders of business, in particular.
2. The major models of CSR are: (i) socio-economic model, (ii) stakeholders' model and (iii) triple bottom-line model.

3. The stages involved in CSR process are (i) commitment, (ii) strategy development and (iii) implementation and control.
4. Managers' responsibility towards society can be classified into: (i) responsibility towards owners, (ii) responsibility towards employees, (iii) responsibility towards consumers, (iv) responsibility towards governments, (v) responsibility towards the general public and (vi) responsibility towards nature.
5. The challenges in the implementation of CSR are: absence of active community involvement in CSR activities, absence of local capacities and well-organized NGOs, lack of transparency, perceptual differences, lack of clear-cut guidelines and policies, absence of cohesive approach in CSR implementation and tendency to gain quick popularity.
6. Green management is the organization-wide process of applying innovation to achieve sustainability, waste reduction, social responsibility and competitive advantage by embracing environment-friendly goals and strategies.
7. Ethics is a set of moral principles that govern the action of an individual or group. Ethics can be classified into descriptive ethics, normative ethics and interpersonal ethics.
8. Social audit is an enquiry into the corporate social accounting records by an outside agency that can opine with a view to attestation and authentication of reports and records.
9. Social audit can broadly be classified into: (i) social balance sheet and income statement, (ii) social performance audit, (iii) macro–micro social indicator audit, (iv) constituency group attitudes audit, (v) government-mandated audits and (vi) social programme management audit.
10. Corporate governance is the process and structure used to direct and manage the business and affairs of a company towards enhancing business prosperity and corporate accountability.

Review Questions

Short-answer questions

1. State the meaning and definition of CSR.
2. Explain briefly the models of CSR with examples.
3. Point out the meaning of green management.
4. Write a note on managerial ethics.
5. Define the term social audit.
6. What are the objectives of social audit?
7. State the essence of corporate governance.
8. How can organizations be classified based on their attitude towards CSR?

Essay-type questions

1. Examine the circumstances under which organizations normally perform their social responsibilities.
2. Trace the progress made by CSR over a period of time.
3. Examine the progress models of CSR with relevant examples.
4. Discuss in detail the different stages in the CSR process.
5. Enumerate the responsibilities of managers towards different sections of the society.
6. Critically evaluate the challenges in the implementation of CSR and also state your strategies to overcome them.

7. Explain the importance of green management and the measures taken towards its implementation.
8. “Ethical codes guide the behaviour of managers in a decision-making scenario.” In the light of this statement, discuss the role and relevance of managerial ethics.
9. Social audit is a relatively new phenomenon in the Indian corporate world. Discuss.
10. Elucidate the types of social audit with relevant examples.
11. Enumerate the steps to be taken to prevent harassments in organizations.

Case Study

Moving Towards Diversity and Inclusion

Amity Brakes Limited produces automobile spare parts on a large scale and supplies them to several major automobile producers in the world. This Hyderabad based multinational has a commendable sales and profit performance. It is also a market leader in its area of operation. The company has a staff strength of 9,500 on its roll. As part of its platinum jubilee celebrations, the management recently did self introspection of its functioning by analysing the relevance of its mission, vision, policies and programmes covering all aspects of the organization.

As far as HRM was concerned, the management concluded that the workforce composition of the organization was not reflecting the reality of the diversified nature of the labour market. In fact, the HR policy of the company was not offering equal opportunity to all segments of the labour market. The number of women employee in the workforce was insignificant while the number of physically challenged person was trivial. Thus, the company took an administrative decision to change its recruitment policy in a way that would reflect the labour market conditions. Also, its management decided to implement these changes with immediate effect.

The proposal of the management received a mixed response from the employees. A section of the employees viewed the proposal favourably and supported it on the ground that it would do social justice, reflect reality of the market, make optimum utilization of the talents available in the market, and prepare the organization for an inclusive growth. However, another section of the work-force viewed the proposal with doubt and disbelief as they felt a well-performing organization like Amity should not take any unwarranted risk. They also feared the cost of training would go up substantially. Besides, they were afraid that gender related issues could crop up in the organization. Further, they foresaw an additional investment commitment by the management to improve the infrastructure facilities, especially for the physically challenged.

Finally, however the company went ahead with its revised policy and implemented it. It also directed the HR department to do what was necessary for the successful implementation of the diversity based HR policy initiatives. The HR department prepared the ground for the implementation of new ideologies and of the policies of the company. Soon after the proportion of the employees belonging to these categories began to pick up.

Questions:

1. How do you view the new proposal of the light of the current performance of the company?
2. Do you foresee any problem for the company in the execution stage of the proposal?
3. Do you have any better suggestions and strategy for the company to adapt itself to the emerging labour market environment?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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PART II:

Planning, Decision Making and Forecasting

CHAPTER 4

Planning

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning, significance and characteristics of planning
2. Enumerate the types and essentials of effective goals
3. Understand the types of planning
4. Enumerate the meaning and types of strategy
5. Explain the approaches to planning
6. Differentiate between strategic, tactical and operational planning
7. Elucidate the steps in the planning process
8. Understand planning premises
9. List the barriers to effective planning
10. Enumerate the steps to make planning effective
11. List the feature and phases of MBO
12. Explain the relevance of SWOT analysis
13. Understand the steps involved in strategic quality planning

India's Inspirational Managers

Indra Nooyi is the chairman and chief executive officer of PepsiCo. She became the first female to lead a company that ranked 41st in the *Fortune* 500 list of companies. She has been successfully directing the company's global strategies and programmes for more than a decade. She has also designed the major restructuring programmes of the company including its divestiture and acquisition programmes. The crux of her administrative strategy is "adaptability," "performance with purpose" and "performing while transforming," especially when undertaking restructuring programmes. She explained performance with purpose as "doing what's right for business by doing what's right for people." Nooyi has specifically focused on the areas of environmental sustainability, talent sustainability and health and wellness. She believes in: (i) scanning with open eyes, (ii) approaching every situation with open ears, (iii) following adaptive leadership, which is to approach things with an open mind and (vi) building an adaptive culture, which means leading with an open heart. Before joining PepsiCo, Nooyi worked for Motorola, where she was the vice president and director of Corporate Strategy and Planning.

Introduction

"Thinking before doing" is an act of planning. In any organization, planning is the first managerial function. Managerial planning helps an organization to decide where it wants to be in the future and how to get there.[1] It offers direction to the whole organization and runs through the entire organization. It is a key to the success of other managerial functions, such as organizing, directing and controlling. It enables the organizational members to know clearly what is expected of them. Planning is essentially a complex, comprehensive, and continuous process of an organization. This process involves the identification of goals and determination of actions for accomplishment of those goals.

The planning expects the managers to foresee the future, anticipate the changes and get ready with the action Plans. It is capable of considerably reducing the uncertainties faced by the managers. Further, planning ensures that managers determine their resource requirements accurately, utilize them properly and also minimize the wastages continuously. Planning brings orderliness to the organization as all its activities are coordinated and executed in a predetermined manner. Planning avoids confusions as employees are informed in advance about their goals, roles and responsibilities in the organization.

Definitions of Planning

Preparing an organization to deal with the future events is the focus of many definitions of planning. We shall now see some of the important definitions.

"Planning is the design of desired future and of effective ways of bringing it about." —Russell L. Ackoff.[2]

“Planning is a process concerned with defining ends, means and conduct at every level of organizational life.” —Gerald A. Cole.[3]

“Planning is deciding in advance what to do, how to do, when to do it and who is to do it.” —Koontz and O’Donnell.[4]

“Planning is the act of determining the organization’s goals and the means for achieving them.” —Richard L. Daft and Dorothy Marcic.[5]

“Planning is that function of management in which a conscious choice of patterns of influence is determined for decision makers so that many decisions will be coordinated for some period of time and will be directed towards the chosen broad goals.” —Joseph L. Massie.[6]

“Planning is essentially the analysis and measurement of materials and processes in advance of the event and the perfection of records so that we may know exactly where we are at any given moment.” —L. F. Urwick.[7]

“Planning means both to assess the future and make provision for it.” —Henri Fayol.[8]

Besides the above definitions, some other authors have also explained the term, planning. For instance, planning is “fundamentally choosing” for Billy E. Goetz.[9] An anonymous expert has described planning “as a trap that is set to capture the future.”

We may define planning as a process of establishing need-driven goals that synchronize the organizational activities and develop ways for accomplishing those goals.

Characteristics of Planning

The following are the characteristics of planning:

1. Planning is essentially a *continuous activity* of the management. Plans may be prepared for specific periods but planning as an activity is performed throughout the life of an organization.
2. It is a *dynamic function* because it should be constantly evaluated and adapted to conform to the new developments in the organizational environment.

3. It is *all-pervasive in nature* as plans are made at all levels of the management. The scope of planning usually covers the whole organization, especially the long-term plans.
4. It is a *future-oriented action* as plans are prepared for the future and not for the present or past.
5. It is a *choice-based decision-making activity*. As a part of planning, several alternative courses of actions are identified and analysed, and then the best alternative is selected.
6. It is a *goal-driven activity*. This is because the goals formulated at the beginning of any planning process determine and direct all other activities necessary for its accomplishment.
7. It is basically an *intellectual exercise* like any other decision-making activity. As a mental exercise, it first involves thinking through all aspects of an issue or a problem. This thinking later forms the basis of all actions.
8. It is *interventionist in nature* in the sense that it tells the employees what should be done, how it should be done and when it should be done.
9. Planning is *a complex and challenging activity* as it involves the selection of the best course of action in an uncertain and complex environment.
10. It is a *process* because it passes through multiple stages like goals definition, policy (guidelines) formulation, resource (physical and human) mobilization, goal fulfilment and reviews.

In brief, plans must necessarily have four basic qualities. They are: (i) quality, (ii) accuracy, (iii) continuity and (iv) flexibility. The presence of these general qualities can get the desired outcome at the end of the planning period.

Significance of Planning

Planning is regarded as one of the most important functions of both small and large organizations.[10] It involves the establishment of general guidelines to ensure that all organizational activities are carried out in a predetermined and an orderly manner. Let us now discuss the importance of planning in detail.

1. **Improved performance**—Planning improves the success rate of the organization by constantly focusing on the end results (i.e. goal accomplishment) than on other activities.
2. **Proactive approach**—It promotes a proactive approach by encouraging the organizations to look, plan and act ahead of the competitors in the market. It thus encourages managers to action rather than reaction.[11]
3. **Future-focused management**—Planning ensures that management allots adequate time and resources for the future activities of the organization. This makes it certain that future risks are anticipated, assessed and minimized by the organization.
4. **Better coordination**—Goals and objectives formulated as a part of plan provide direction to the whole organization. Goals and objectives ensure that there is a proper coordination among all the members and their activities.

5. **Basis for controlling**—Plans predetermine the performance targets for different departments, divisions, units and individuals of the organization. These performance targets act as the standards for comparing the actual performance and also for determining performance efficiency at various levels.
6. **Enhanced employee communication and involvement**—Planning facilitates better administration, as information on plans and goals are shared with the employees. Employees' feedbacks are also routinely collected about plans. Frequent information exchange as a part of the planning process also improves the employment involvement and morale.
7. **Objectivity in decision making**—The most effective way to ensure objectivity in decision making is to plan in advance the short- and long-term goals to be achieved. Planning ensures that the organization has adequate time to consider all options in detail before a final decision is arrived at.
8. **Cost-effectiveness**—Planning ensures that the organizational resources are effectively mobilized and properly utilized. It also facilitates the managers to decide how and when they allocate the physical, financial and human resources. It thus makes sure that resource wastages are kept to the minimum.
9. **Legitimacy**—Planning involves the framing of mission and vision goals for the organization. Mission and vision goals of an organization stand for the reason for the existence of the organization. They symbolize legitimacy to the stakeholders like investors, customers, suppliers and distributors, besides the local community.[12]

However, it should be noted that only effective plans can yield the desired results for organizations. To be effective, plans must be clear (easy to read and understand), concise (short and to the point), credible (accurate and believable), logical (arranged in an orderly pattern) and persuasive (convincing and motivating and results in goal accomplishment).[13]

Orientations to Planning

According to Ackoff,[14] organizations can adopt any one of the four orientations to planning based on their own beliefs and philosophy. The four orientations to planning are: (i) reactivism, (ii) inactivism, (iii) preactivism and (iv) interactivism. Let us now discuss them briefly.

1. **Reactivism**—Managers view the past as the best period and aim at returning the organization to its previous state. Such organizations normally adopt paternalistic hierarchy in planning and also look to preserve the traditions and ensure continuity. They attach great importance to tactical planning—a short-term operational planning. However, technologically-advanced organizations eventually replace those organizations that adopt reactive planning.
2. **Inactivism**—Managers look to avoid changes and maintain status quo. In case of crisis, the intention of planning is limited to just reducing the discomfort and not tackling its root cause. These organizations normally adopt a bureaucratic approach to planning.

Inactivist managers normally give higher emphasis for tactical and operational plans (discussed later in this chapter).

3. **Preactivism**—Managers with preactive orientation to planning look to exploit the future opportunities by accelerating the change process. They aim at mastering technologies that are responsible for changes. Preactive organizations normally adopt management by objectives, inventiveness, decentralization, informality and permissiveness to planning.[15] Preactivist managers often provide more importance to long-term planning.
4. **Interactivism**—Managers firmly believe that the creation of a desirable future is possible. They meticulously design and develop ways and means to realize this belief. Interactivist organizations consider technology, experience and experiments as pivotal as they facilitate development, learning and adaptation. Interactivists usually place greater importance on normative planning.

Goals—An Overview

Planning will be an useless exercise for any organization, if it does not have well-defined and realistic goals. The goals guide the actions of the planner from the beginning till the end. Goals are the foundations of all planning activities. In the beginning, it provides direction to the planning exercise and, in the end, it controls the process by facilitating the measurement of the efficiency of the plan. Goals are thus critical to the organizational and planning effectiveness. Organizations can have different kinds of goals for serving different purposes, but all these goals must be aligned properly. Effective organizational goals would have hierarchical alignment. In other words, achievement of goals at lower levels leads to the achievement of goals at higher levels. This is called means–end chain.[16]

Though goals can be known by different names, such as mission, objectives, road maps, etc., they have a few common benefits. They are as follows:

- Goals offer guidance and unified direction to the organizational members.
- Goals keep the employees focused on their activities as they are aware of the expected outcome of their actions in a stable environment.
- Goals and plans are capable of effectively complementing one another. An effective goal setting facilitates sound planning which, in turn, brightens the chances of developing superior goals in future.[17]
- Goals that are transparent and rewarding can be a valuable source of motivation for employees. They can also keep the employee morale high since they may find their jobs challenging and result-oriented.
- Goals are effective instruments for performance evaluation and control. Goals become the standards for comparing the actual performance of employees and also for determining the efficiency level.

Kinds of Goals

Goals are the predetermined results organizations seek to achieve through their planned actions. However, organizations may call goals by different names, depending on their scope, purpose, duration, etc. Let us now look at the important forms of goals.

Missions—These are the official goals that describe an organization's reason for existence. A mission statement provides a separate identity to each organization. It also sets organization's business apart from its competitors and others. A mission statement normally contains information regarding: (i) the purpose of an organization's existence, (ii) intended beneficiaries (customers, public, employees, etc.) and (iii) the likely impact of its existence. A mission statement offers broad guidelines to the managers when they determine priorities, make decisions and allocate resources.

Mission statements also form the basis for finalizing the objectives and goals of the organization. They also act as communication tools of the organizations. They officially and authoritatively communicate the values, beliefs and motives of the organization to the stakeholders. A mission statement is also the formal expression of an organization's vision (statement of the organization's future ambitions), values, belief and attitudes. It also provides legitimacy to the existence of an organization and improves its image in the eyes of the public. The mission statements of some leading organizations are presented in Table 4.1.

Objectives—The terms objectives and goals are often used interchangeably in management. However, there are subtle differences existing between objectives and goals. Time span and specificity are the two factors that distinguish objectives from goals.[18] Objectives are specific and short-term targets to be achieved before the goals can be reached. Objectives are statements of specific and short-term nature that lead to the accomplishment of more general and long-term goals. Box 4.1 shows the objectives of SAIL.

Table 4.1 Mission Statements of Organizations

Some Examples
At the Tata Group, our purpose is to improve the quality of life of the communities we serve. We do this through leadership in sectors of national economic significance, to which the Group brings a unique set of capabilities.
—Tata Group
To enhance the wealth generating capability of the enterprise in a globalizing environment, delivering superior and sustainable stakeholder value.
—ITC
Strategic partnerships for building tomorrow's enterprise.
—Infosys
Our mission is to bring healthcare of International standards within the reach of every individual. We are committed to the achievement and maintenance of excellence in education, research and healthcare for the benefit of humanity.
—Apollo Hospitals
Create value for all stakeholders–Grow through innovation–Lead in good governance practices–Use sustainability to drive product development and enhance operational efficiencies–Ensure energy security of the nation–Foster rural prosperity.
—Reliance Industries Limited

Box 4.1
Objectives/Strategies of Steel Authority of India Limited (SAIL)

The current strategies of SAIL expressed in the form of objectives are:

- To continue to be mainly in the business of Steel and Steel-related activities.
- To protect market share and grow by focusing on increasing share in growth segments.
- To aim at achieving international/national benchmarks on product cost and consumption ratios, especially in the new units with due allowance for prevailing conditions, technology, facilities, inputs, etc.
- To aim at excellence in quality across the value chain.
- To build customer-centric processes, systems, structure and procedures.
- To maintain financial health with rational investment and controlled borrowing.
- To carry out interventions to achieve all-round functional improvements in marketing, human resources, infrastructure and utilities, maintenance, information technology, environment and safety management, etc.
- To remain a socially responsible company by committing certain amount of profit towards society in the areas of

peripheral development[63], education, health, sports, family welfare, etc.

According to Donna Hardina, “Objectives are steps to reaching the goal and must be related to specific task or process. They must also be time-limited and measurable. For instance, the annual objectives of organizations play an important role in the accomplishment of their strategic goals.”[19] Well-defined and well-designed objectives are accurately measurable and are linked to the organization’s long-term goals. According to James Stoner, “Annual objectives identify clearly what must be accomplished each year in order to achieve an organization’s strategic goals.”[20]

Objectives of organizations can broadly be classified into task objectives and process objectives. Task objectives concentrate on the completion of specific tasks (like production of a specific quantity of a particular brand) within a predetermined period. Process objectives focus on the means that are necessary for the completion of the task-related activity. For instance, process objectives may aim at recruiting and training the skilled persons to accomplish the task objectives. It is to be noted here that some management authors differ with the view that fulfilment of objectives are the means to realizing the goals of organizations. According to them,[21] goals are specific and short-term exercises, whereas the objectives are used to indicate the end point of a management programme.

Goals—In simple terms, goals are the desired outcomes or targets of organizations.[22] Goals are the broad and long-term targets of an organization. Managers must ensure that the goals are based on the idea of choice and clarity.[23] Goals are usually considered as multidimensional since the number of objectives is incorporated into an overall goal. It is important for the managers to ensure that their goals are effective enough to guide the activities of their organization. In this regard, they must ensure the following:

1. Goals should be specific and cover the key areas of results. Managers must not formulate goals for each and every activity or behaviour of the employees.

2. Goals should define the period of time, from its formulation to achievement. It must specifically state the date of commencement and completion of the goals.
3. Goals must be formulated on the principles of choice and clarity. Clear, direct and carefully-chosen goals can ensure optimum utilization of organizational resources.
4. Goals must be realistic and attainable. If goals are too difficult to be achieved, they may cause frustration and disquiet among the employees.
5. Goals must always be a fruitful exercise for the participants. Reward-based goals can get better cooperation and involvement of employees.
6. Goals must be measurable in nature. Quantifiable goals can act as effective standards for measuring the performance of employees. Goals are thus meaningful when they are specific and measurable.
7. Goals must be explicit and transparent. Written goals must be widely communicated to all its participants in order to ensure their effective participation.

Organizational goals can be classified as financial goals and strategic goals. Financial goals pertain to the financial performance of an organization. Strategic goals are linked to all other aspects of an organizational performance. For instance, fixation of profit target is a financial plan while determination of the number of units to be produced can be a strategic plan.

Goals can also be classified as stated goals and real goals. Stated goals are the official statements meant primarily for its stakeholders such as investors, customers and general public. Annual reports and other public statements of organizations usually have information about these goals. In turn, real goals are those goals (actions) that organizations actually follow. These goals may or may not be in conformity with the stated goals. Non-employment of child labour is the stated or official goal of business organizations but some have the practice of employing them in violation of their official goals.

Types of Planning

Planning is applicable to all levels of management as plans can serve different purposes for different managers. Top management can formulate long-term plans for the whole organization. Similarly, first-line supervisors may develop short-term plans to manage the day–to-day activities at unit levels. An organizational plan can take different forms depending on its scope, time frame, degree of detail and frequency of use involved. In this:

- Scope refers to the range of activities covered by a plan. It may be sufficiently wide to cover the whole organization, or small and narrow to cover a unit.
- Time frame defines the period covered by a plan. The plan may be short-term or long-term.
- Degree of detail involves the specificity of the plan. The plan can be detailed or less-detailed.
- Frequency of use refers to the number of times a plan is actually used. It may be one time or multiple times.

Classifications of Planning

We shall now see the classifications of plans keeping these determinants in mind. Figure 4.1 shows the classifications of planning.

Classifications Based on the Scope and Degree of Details

Based on the scope and details, planning can be classified into three categories. They are: strategic planning, tactical planning and operational planning.

Strategic planning—Usually, strategic plans are formulated by the top authorities of organizations comprising the board of directors and top management. These plans pertain to the organization as a whole rather than to any specific department, division or individual. Strategic plans focus primarily on an organization's environment, resources and mission. These plans are normally comprehensive in scope, relatively general (less detailed) and typically implemented over a long period of time. Strategic plans outline the broad goals for the whole organization and also state its mission (purpose of existence). It is a blueprint that drives an organization's efforts towards goal accomplishment. However, these plans focus more on the relationship between the organizational members and those who work in other organizations. These plans must be adequately flexible to accommodate changes caused by the external environmental factors. These plans serve as basis for lower-level planning like tactical planning.

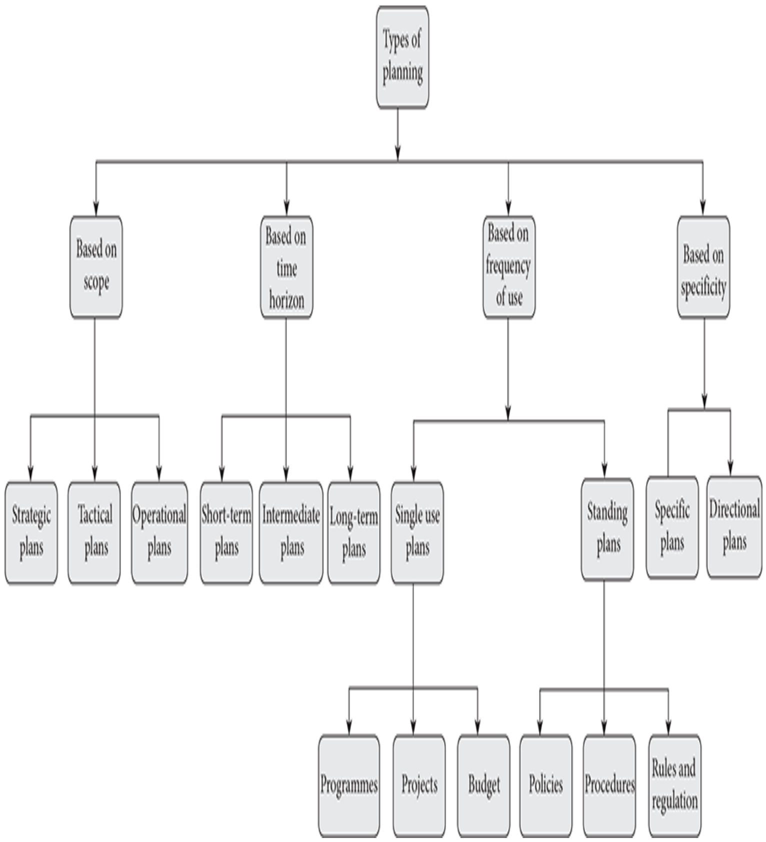

Figure 4.1
Classifications of Planning

Tactical planning—Tactical plans are the detailed plans designed to implement the strategic goals and plans formulated by the top management. Tactical plans are derived from strategic plans. These plans normally offer details of how an organization will compete within its chosen area.[24] Middle managers have the main responsibility of formulating and implementing tactical planning. Tactical plans can be defined as an organized sequence of steps designed to execute strategic plans.[25] These plans focus primarily on people and actions.

Tactical plans normally have a shorter time frame than strategic plans. Plans that focus on the functional areas of an organization like marketing, manufacturing, financing and human resource are a few forms of tactical plans. The scope of tactical plans is generally broader than operational plans but is narrower than that of strategic plans.

Operational planning—Operational plans aim at converting the strategic plans into reality through specific, focused and short-term plans. It also aims at supporting the execution of tactical plans. Operational plans are usually derived from tactical plans. These plans are developed by department managers, and other low-level managers for carrying out the strategic and tactical plans through day-to-day activities. Operational plans identify the specific procedures and actions to be adopted by employees at the lower levels of the organization for goal accomplishment. These plans tell exactly what is expected from the departments, teams and individuals.

Operational planning involves the determination of specific steps, measurable goals and resource allocation necessary to fulfil the strategic goals. These plans can be prepared for a week, month or a year. These plans are typically viewed as a part of the implementation phase of strategic plans. Purchase plans, advertising plans, financial plans, facilities plans and recruitment plans are a few typical examples of organizational planning. Operational plans normally focus on the relationship prevailing among the people working within the same organization. A comparison of the characteristics of all three forms of planning is shown in Table 4.2.

Classifications Based on Time Horizon

Plans are normally classified into short-term plans, intermediate plans and long-term plans depending on the time period. Let us now see these plans in detail.

Short-term plans—These plans are formulated when the organizations want to accomplish their goals within a short span of time. The short-term plan period may not usually exceed a year. These plans normally become tools for management of day-to-day activities in departments, divisions, units, etc. Short-term plans are the steps that lead to the fulfilment of long-term objectives. In an uncertain environment, organizations prefer short-term goals and plans over long-term goals and plans. For instance, when technological, social, economical, legal and other changes are fast-paced, organizations may prefer short-term plans as they permit far more flexibility.[26] These plans are normally expressed on a departmental basis like sales plans, purchase plans and manufacturing plans. Tactical planning generally belongs to short-term planning category. Lower-level managers are normally assigned with the responsibility of short-term planning.

Table 4.2 Comparison of Strategic, Tactical and Operational Planning

Nature	Strategic Planning	Tactical Planning	Operational Planning
Management level at which planning is done	Top level	Intermediate level	Lower or supervisory level
Duration of plan	Long term	Short to medium term	Short term
Coverage of the plan	Whole organization	Functional areas like marketing, manufacturing, etc.	Departments, teams and individuals
Scope of guidelines	Broad, directional and general	Neither too general nor too specific	Narrow and specific
Plan flexibility or adaptability	Low	Medium	High
Primary purpose of planning	Goals and objectives formulation	Developing procedures for goal formulation	Goal implementation and controlling
Managerial functions involved	Planning and forecasting	Planning, organizing and controlling	Controlling
Assumptions about the future	Unpredictable and highly uncertain	Moderately predictable and reasonably certain	Predictable and certain
Intended outcome of the plan	Infinite and indefinite	Finite and measurable	Finite and measureable
Decision making	Centralized	Decentralized	Decentralized

Short-term plans can be classified into: (i) action plans and (ii) reaction plans.[27] Action plans are those plans that are formulated for accomplishing other plans (like tactical and operational plans) of the organization. Action plans offer detailed and sequential course of actions to be adopted for organizational goal accomplishment. Reaction plans are those plans that are prepared to tackle the organizational contingencies. Managers formulate reaction plans whenever there are unexpected or unforeseen developments in the environment that require some response from the organization.

Intermediate-term plans—Intermediate plans define the organizational activities important for the execution of long-term plans and goals. When the environment becomes uncertain organizations usually focus on intermediate planning as an alternative for goal accomplishment. Normally, long-term and intermediate-term plans are suitable for corporate and business level goals while intermediate- and short-term plans are fit for functional goals and strategies.[28] These plans are useful for middle-level managers as they offer directions to them. Tactical planning is one form of intermediate planning. These plans normally cover a time horizon of one to two years.[29]

Long-term plans—Long-term plans are prepared when organizations require long periods of time to reach their goals. Strategic plans are usually the long-term plans of the organization. A long-term plan can provide a "big picture" of an organization and also indicate its future direction. Top management is normally involved in the formulation of long-term plans. Political, economic, legal and industrial conditions shape the long-term plans of a firm. These plans may cover a time period of two to five years or more. The major focus of long-term plans is on the profitability, return on investment, risk reduction, market share, new product development and market expansion of the organization. However, the time period of long-term plans will vary from one organization to another and from one industry to another.

Classifications Based on Frequency of Use

Plans can also be classified into single-use plans and standing plans depending on the number of times these plans are used in the organization. Let us see them now.

Single-use plans—These plans are generally prepared for one-time use. The aim of these plans is to meet the needs of a particular situation. They are developed to achieve non-routine and unique goals of an organization. The course of action developed as a part of these plans is less likely to be repeated in future and in the same form. Plans formulated by the management for completing acquisition or merger processes are examples of single-use plans. The important forms of single-use plans are: (i) programmes, (ii) projects and (iii) budget.

1. **Programmes**—Programmes are single-use plans that are prepared to handle specific situations. They are helpful when a large set of activities are to be carried out on a target-oriented and time-bound basis. Each programme is normally a special and one-time activity for meeting a non-routine nature of goals. Programmes are expected to remain in existence only till the achievement of specific goals. They might contain procedures for uncommon activities such as introduction of new products, entry into new markets, opening new facilities, restructuring of business, etc. Each programme may also be associated with several projects. ISRO's planned mission to the moon called Chandrayaan-2 is its ambitious programme for the future.
2. **Projects**—Projects are another form of single-use plans but they are usually less complex in nature. Projects usually have shorter time horizon than programmes. Typically, projects can be a part of programme and also be independent, single-use plans. Special training to a group of employees who might be given special assignments after the planned business takeover can be a project, while the takeover itself is a programme. Similarly, development of cryogenic fuel by ISRO for its GSLV launch vehicle that will carry heavy payloads to the moon is an example of a project.
3. **Budgets**—Budgets are another form of single-use plans. They are expressed in financial terms. A budget refers to the funds allocated to operate a unit for a fixed period of time.[30] Budgets normally cover a specific length of time, say one year, and serve a specific purpose. Budgets can act as planning as well as controlling tools of an organization. In organizations, budget normally mentions how funds will be sourced and how such funds will be spent on labour, raw materials, overheads, marketing, capital goods, automation, etc. For instance, the Indian government has provided budget allocation of ₹ 82.50 crore for ISRO's Chandrayaan-2 mission to the moon.[31]

Standing plans—These plans are used repeatedly because they focus on situations that recur regularly over a period of time. The primary purpose of standing plans is to make sure that the internal operations of the organization are performed efficiently. Standing plans are normally developed once and then modified to suit the changing business needs. These plans offers guidance for repetitively performed actions of the organization. Standing plans save the planning and decision-making time of the managers by guiding employees' actions in the organization. These plans normally encompass a broader scope than single-use plans because they involve more than one department or function. Policies, procedures, and rules and regulations are important forms of standing plans.

1. **Policies**—Policies are one form of standing plans that provide broad guidelines for routinely made decisions of the managers. Organization's strategic plans and goals usually form the basis for framing the policies. In normal circumstances, policies are expected to define the boundaries within which decisions are to be made by the managers and supervisors. Policies are actually the general statements that are broad in scope and not always situation-specific.[32] According to George R. Terry, policy is a verbal, written or implied overall guide, setting up boundaries that supply the general limits and direction in which managerial actions will take place. Policies can also explain how exceptional situations are to be handled by the managers.[33]
   HR policies like hiring policies, compensation policies and performance evaluation policies are a few examples of an organization's policies. Policies can be classified as: (i) originated policies (general policies formulated by top management for guiding employee actions, (ii) appealed policies (policies in full or part formulated in response to the specific request of the stakeholders), (iii) implied policies (policies that exist and guide decisions but are not explicitly approved by any competent authorities) and (iv) externally imposed policies (policies dictated by external agencies like government, unions, etc.).
2. **Procedures**—Procedures are the standing plans that define specifically the steps to be followed for achieving specific goals. Procedures are also known by terms such as standard operating procedures (SOPs) or methods. Procedures are usually more specific than policies. Procedures state exactly what course of action is to be adopted by an employee in a particular circumstance. Past incidents and behaviours often provide the inputs for modifying and improving the existing procedures.
   Procedures can be similar for more than one functional area of a business. For instance, organizations may adopt the same leave sanctioning procedure for all employees across the whole organization. Procedures can ensure consistency in the decisions of the managers in identical and recurring situations. Grievance handling procedure and disciplinary action procedure are a few instances of procedures.
3. **Rules and regulations**—These are the narrowest forms of standing plans.[34] Rules clearly state what is to be done by an employee in a specific situation. Regulations in turn regulate the behaviour of the organizational members in a programmed manner. Rules normally do not leave any scope for exercising options or decision making by managers. They do not supplement decision-making activities, rather they substitute them. For instance, when employees are late to the office, it drives the managers to a predetermined course of action. Similarly, when there is a non-payment by a trade debtor, it instructs the sales people to follow a standard practice without any deviation.
   It is to be understood clearly that single-use plans and standing plans are not always used independently. Rather, single-use plans are often used with standing plans to aid in the accomplishment of the goals.

Prerequisites for effective policies—Policies are considered as an effective and indispensable management tool, every organization therefore expects these policies to be good, time-tested and realistic. The following characteristics can make policies effective.

- **Clarity and brevity**—To be effective, policies must be clearly written and laid out in an easy-to-read and understandable format. As far as possible, technical jargon and long sentences are to be avoided while writing policies.
- **Adaptability**—Since organizations operate in dynamic environments, it is important that their policies are sufficiently flexible. This flexibility will permit the management to carry out timely and need-based revisions in the policies. At the same time, it is also equally important to ensure that there is sufficient degree of stability in policies to achieve continuity in administration. There must be a reasonable balance between stability and flexibility.
- **Comprehensiveness**—Organizations must make sure that the policies are comprehensive enough to deal with any emergency situations that may arise when relevant plans are implemented.
- **Ethicality**—The policies of an organization must conform to the ethical standards of the organization and the society. Ethical policies specify an organization's commitment to ethical practices. An organizational policy must respect human rights, ecology and social goodness to become an ethically sound policy.
- **Ownership**—The policy user must know clearly the ownership of a policy. They must know from where the policy originated and the management levels responsible for its maintenance. When the ownership of a policy is clear, it can substantially enhance its authority and effectiveness.
- **Goal oriented**—The aim of a policy is typically an organizational goal accomplishment. It is therefore important that the policy is linked to the broader objectives of the organization. Policies must also provide for proper coordination of activities of various interrelated units and subunits for effective goal achievement.

Classifications Based on Specificity

Based on the scope for different interpretations, plans can be classified into specific plans, directional plans, contingency plans and scenario plans.

Specific plans—Specific plans are well-defined plans that do not allow different interpretations by different managers. They ensure consistency and continuity in the decisions of managers. These types of plans are apt for organizations that enjoy stable external and internal environments. Clarity of organizational goals and objectives is an important prerequisite for formulating effective specific plans. A plan that aims at cutting the production cost by 3 percent in one year is an example of a specific plan. These plans are capable of minimizing and eliminating ambiguity, misunderstanding and other problems associated with any goal execution. However, these plans can restrict the freedom and creativity of resourceful managers.

Directional plans—Directional plans are general plans that offer a great deal of flexibility to the managers in goal formulation and execution. They provide a general direction in which the organization proposes to move forward but there are no specific plans or deadlines.[35] Directional plans are best suited for uncertain and volatile organizational environments. The distinct feature of these plans is that they are sufficiently flexible to enable an organization to respond quickly to the unexpected developments in the environment.

Directional Plans provide focus to the managers without tying them down to any predetermined and specific course of action. However, these plans do not have the clarity of specific plans. They may cause misunderstanding and performance deviations. A plan that aims at increasing the corporate profit between 4 percent and 6 per cent is an example of a directional plan.

Contingency planning—Contingency plans are the specific actions to be taken by an organization in the case of crisis, setbacks or unforeseen circumstances. These plans become functional in the event of unexpected happenings with important consequences for the organization. Organizations operating in vastly uncertain environments usually develop contingency plans along with strategic, tactical and operational plans. Contingency planning is a process of identifying what can go wrong in a situation and getting ready with plans for managing them. Let us look at a few definitions of contingency planning.

"A contingency plan is a plan that outlines alternative course of actions that may be taken if an organization's other plan of actions are disrupted or become ineffective." —William M. Pride.[36]

"Contingency plans define company's response to be taken in the case of emergencies, setbacks or unexpected conditions." —Richard L. Daft.[37]

The need for contingency planning arises out of a thorough analysis of the risk that an organization faces. The risks may arise from internal factors like strikes, machinery breakdowns, key people's resignation or hospitalization, accidents, fire or other disasters. It may also emerge from external factors like new technological developments, increase in cost of supplies, transport disturbances, sudden changes in interest rates, economic slowdown, government regulations, terror strikes, etc. Organizations can have separate contingency plans for internal contingencies and external contingencies. Typically, people who have given thought to contingencies and possible responses are more likely to meet major goals and targets successfully.[38]

Scenario planning—A scenario means a description of scenes. Scenario planning is basically a modern forecasting technique used in the planning process. It helps in learning about the future by understanding the nature and impact of the uncertain forces affecting the external environment of an organization. Scenario planning is an opportunity to generate a clear and imaginative background for thinking how to act in the future. In this type of planning, managers mentally rehearse different scenarios based on their expectation of diverse changes that could have an effect on the organization.[39] In this type of planning, each scenario is seen as a story that has several possible endings. Group members discuss different endings for each scenario ranging from the most optimistic to the most pessimistic. They then decide how they would respond.

Scenarios can help in recognizing major changes and likely problems. They also help managers to improve their knowledge of the organizational environment. Further, they enhance and perfect the manager's perception of possible future scenarios through mental rehearsals even before it actually happens. This allows for anticipation of the unexpected events and providing an early warning system. An automobile company can do a scenario planning for the impact of possible steep increase in fuel cost on its product sale.

Strategy

In a simple sense, strategy means “a systematic and detailed plan of action.” In business parlance, this term refers to the specific courses of action undertaken by the higher levels of the organization to accomplish pre-specified goals. Hill and Jones[40] describe strategy as an action a company takes to attain superior performance.

The term, strategy, has its origin in the Greek word, *strategus*, which means commander-in-chief. It is actually a combination of two words—*stratus* meaning “army” and *agein* meaning “to lead.” Thus, it means to lead the army in its operations.

Levels of Strategy

Organizations can make strategies at three different levels. The focus and requirement of each strategy will differ depending upon the level at which these strategies are formed. The three major levels of strategy formulation are corporate, business and functional levels. However, the corporate level strategy is further classified as growth strategy, portfolio strategy and parenting strategy (Figure 4.2). However, it is absolutely essential that these strategies are internally consistent, mutually supportive and goal oriented.

Corporate-level strategy—This is the top level of strategy making in an organization. Corporate strategies usually deal with basic questions such as how to create value for the entire organization. Top-level managers make wide-ranging decisions concerning the scope and direction of the organization. Organizations usually make decisions on the market or industry product diversification, merger or amalgamation, and so on. Similarly, through corporate strategies, an organization decides on building organizational capabilities and core competencies. Corporate level strategy has three components: (i) growth strategy, (ii) portfolio strategy and (iii) parenting strategy. We shall discuss each of these strategies briefly.

1. **Growth strategy**—Growth strategy deals with the development and accomplishment of growth objectives. It can be further classified into concentration strategy and diversification strategy. Concentration strategy is adopted by an organization when the business in the existing industry is safe, profitable and attractive for further expansion. The organization can implement concentration

strategy through vertical or horizontal integration. In vertical integration, the organization develops strategies to expand within the existing industry by taking over the functions performed earlier by the supplier and others. In contrast, the horizontal integration involves the acquisition of additional business activities that are similar to the existing business activities. For instance, firms may acquire competitors' business activities to reduce threat from competition. In diversification strategy, firms grow by expanding their operation into new markets, by introducing new products in the current market or by adopting both strategies. Growth strategies are often carried out through mergers, acquisitions and strategic alliances.

2. **Portfolio strategy**—Portfolio strategy deals with determining the portfolio of business units for the organization. This strategy aims at constantly revising the portfolio of business units on the basis of risk and return. It views each business unit as an investment for the organization. As such, it aims at getting good returns out of each investment. The purpose of portfolio strategy is to allocate resources to those products or services that ensure continuous success or to those products that get greater returns but with high risk. Overall, portfolio strategy attempts to ensure that the collective profitability of all the businesses in the portfolio enables the organization to attain its performance objectives successfully.
3. **Parenting strategy**—The parenting strategy, aims at allocating resources among the different business units of the organization with optimum efficiency. It seeks to build organizational capabilities across the business units of the organization. The strategy may involve, among others, identifying key factors of the organization, determining the priority in resource allocation, ensuring better utilization of resources and capabilities, and coordinating the different activities in an efficient manner.

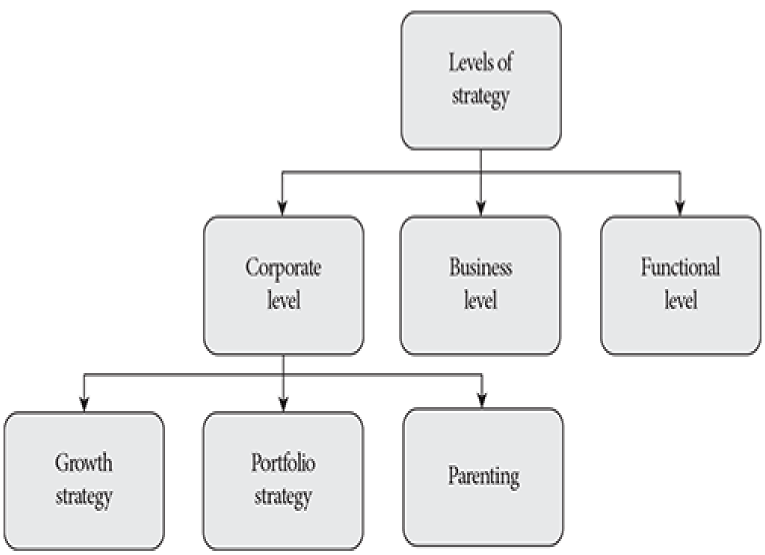

Figure 4.2
The Levels of Strategy

Business-level strategy—The second level of strategy is the business-level strategy. It deals with questions like how to achieve a competitive advantage in each business that the organization is engaged. It is concerned with the development of the strategy for a single business organization. In the case of a diversified business organization, business-level strategy means formulating a strategy for any one of the strategic business units. Each business unit is treated as an independent unit and profit centre. It can develop its own business-level strategy in order to successfully compete in the market for individual products or services. It focuses mostly on creating and sustaining competitive advantage through price/cost leadership and product differentiation.[41] For instance, factors like advanced technology, unique product features, superior HR skills, efficient distribution capabilities, and superior customer service can give competitive advantage to the unit. The strategy involves a deliberate decision to perform differently in the market to deliver a unique mix of values.[42]

Functional-level strategy—At the functional level, specific strategies are made for the functional activities of the organization. These are usually executable within a short period of time. Functional-level strategy may include production, marketing, purchase, finance, HR, research and development, and other similar activities of the firm. Each functional area covers several tasks. For instance, the HR function may include tasks like recruitment, selection and training. Here, the functional-level strategy will decide whether to carry out a task, (e.g., training) through in-house resources or to outsource the same. The functional strategies should effectively supplement and support the corporate and business strategies of the organization.

Finally, it is essential to ensure that all the strategies of the organization contribute effectively to the accomplishment of the overall objectives of the organization.

Approaches to Planning

The process of planning is closely linked to an organization’s internal and external environment. Planning is bound to change when there are changes in an organizations’ environments. Years ago, planning was viewed as the privilege of top managers with almost no role of employees. Consequently, traditional managements adopted a top-down approach towards planning. This attitude of managements began to change with the development of new management theories (like Management by Objectives (MBO)) and entry of knowledge workers in organizations. Now firms strongly believe that planning can be effective and successful only when employees are involved at every stage of the planning process. Approaches to planning can be classified as top-down execution and responsibility approach, bottom-up execution and responsibility approach and top-down policy and bottom up planning and executive approach. We shall now discuss the various approaches to planning.[43]

Top-down Execution and Responsibility Approach

This is the traditional approach to planning. As per this approach, planning is entirely the responsibility of the top management of the organization. Usually, these kinds of organizations keep an exclusive planning department to assist the management in formulating plans. The planning department will have specialized people with the responsibility to develop plans, procedures and policies. In this approach, plans developed by the top management will be sent down the organizational hierarchy for execution. At lower levels of the management, these plans are modified to suit the needs of individual departments.

The merit of this approach is that it makes the planning process a systematic and well-coordinated affair. The limitation of this approach is that the individual department may not get proper attention. For instance, department-centric issues can be overlooked. The planning personnel may not have the feel of the problems faced by the departments. Similarly, they may find it difficult to understand how data from various departments relate to the business on the whole. In an overseas survey of top-down approach, two-thirds of the managers viewed this approach as ineffective and disappointing.[44]

Bottom-up Execution and Responsibility Approach

In this contemporary approach, each department is assigned with the responsibility of developing and implementing plans according to the requirements. This approach ensures that organizational members at different levels are involved in the planning process. The involvement of employees also ensures their commitment to planning. Peter F. Drucker's MBO is a classical example of the bottom-up approach (discussed later in this chapter).

In bottom-up planning departmental issues get due attention and the employees also get motivated to work harder for the success of the plans. However, the limitation of this approach is that planning could become a costly affair for the organization. Further, it becomes necessary for each department to train their staff in planning. The managers' focus on core activity (like production activity for manufacturing department) could get distracted due to the planning activity. The department plans may not have the thoroughness and professionalism of centralized plans prepared by full-fledged planning departments.

Top-down Policy and Bottom-up Planning and Execution Approach

The purpose of this approach is to have the benefits of top-down and bottom-up approaches. In this approach, a centralized department like the planning department develops the planning policy and guidelines to be followed by all the functional departments. Conforming to these planning policies and guidelines, each department can develop and implement their own plans. This approach makes planning a collective endeavour of all levels of management. This approach ensures that plans are consistent and driven primarily by the overall organizational interests and priorities. But this approach can push up the cost of planning as people at different levels are involved in the planning process.

Steps in the Planning Process

Planning is never a one-time activity of a business, rather it is a continuous activity performed throughout the life of the organization. Planning is a process that involves several interrelated steps. A process is actually a system of operations that work together to produce an end result.[45] The success of the whole organization is tied crucially to the effectiveness of its planning process. It is therefore essential for the management to have a proper process to develop plans in an efficient, orderly and recurring manner. Even though the steps in the planning process may vary from one organization to another, certain steps are important for all planning processes. Figure 4.3 illustrates the steps in the planning process.

Determining the organization's goals and objectives—The success of planning depends on the ability of the managers to set and achieve goals and objectives. Organizational objectives should be set in the key areas of the operations. At the first stage of planning, managers must analyze the mission statement of the organizations to get inputs for goal-setting and planning activities. Mission statement profoundly influences the planning operations by providing it with focus, direction and limits. A well-defined mission is the basis for the development of all subsequent goals and objectives.[46] Managers must also take into consideration the other influencing factors like environmental conditions, resources availability, employee skill inventory and ethical issues for determining the goals and objectives.

Managers must ensure that their goals and objectives are SMART, i.e. Specific, Measurable, Attainable, Relevant and Time-based. These goals and objectives can be qualitative or quantitative in nature. In any case, goals must be verifiable. At the end of the planning period, managers must know whether they have accomplished the goals or not. For instance, if the goal is to conduct a 40-hour training programme for managers, it is a verifiable goal. In contrast, if the goal is to develop better managers, then it can become a non-verifiable goal. Once the goals are framed, managers get clarity on their target, time frame and direction.

Figure 4.3
Steps in the Planning Process

Discovering the environmental changes—Once the goals are established, managers should scan the internal and external environments to identify the factors facilitating and blocking the goal achievement. While evaluating the external environment, managers must first study the changes in the macroenvironment that affect all forms of organizations and industries. The macroenvironment analysis normally involves the analysis of social, political, technological, legal and political factors. Then, they should evaluate the changes in a microenvironment that comprises organizations belonging to a particular industry. They must specifically look for information pertaining to customer attitude and needs, recent trends in technological development, impact of technology on the organization and its existing product line, cost of labour, government policies, legal constraints, and strengths and weaknesses of suppliers and distributors.

Managers should then evaluate the internal environment of the organization. As a part of this analysis, managers must consider the need for and availability of various resources likes financial, physical, human, time and information resources. The internal environment analysis should also cover the internal factors like organizational culture, organizational structure, existing skill inventory of employees, operational capacity and efficiency, patent rights and market share. Managers would have a large amount of information on the organizational environment after the internal and external environmental analyses are done. This information should enable them to recognize the opportunities and challenges presented by the external environment and the strengths and weaknesses of the internal environment. This process can be done through SWOT analysis (discussed later in this chapter). By adopting appropriate forecasting techniques, managers can predict the future trends with a fair degree of accuracy and utilize them to accomplish the predetermined goals.

Developing the alternatives—Once the environment is scanned and the trend obtained, managers should identify different alternatives to reach the goals. Environmental analysis ensures that all possible alternatives are identified and included so that the best one can be chosen. The nature of the goal, the availability of information and the analytical ability of managers together determine the number and nature of alternatives generated by them. Though managers intend on developing organization-centred alternatives for goal accomplishments, a few generic (general) alternatives are also available. These generic alternatives can be applied to a wide variety of organizations. However, the development of alternatives can be limited by an organization's objectives, philosophies and policies and also by the attitude of managers and employees.

Detailing the alternatives—After managers develop all possible alternatives, they do Analysis of Alternatives (AOA). AOA is the analytical comparison of multiple alternatives before choosing the best alternative. The alternatives must be carefully analyzed in a systematic and logical way so that the most suitable alternative is chosen for implementation. The alternatives on hand can be evaluated by managers through qualitative and quantitative criteria. As a part of qualitative analysis, the strengths and weaknesses of each alternative are compared without the support of any numeric data and the best choice is made. It is actually a subjective analysis. In the case of quantitative analysis, alternatives are assigned with numeric values for comparison. For instance, when sales turnover, net profit, labour cost or any other numeric data on alternatives are used for comparison, it then becomes quantitative analysis. In the course of evaluation of alternatives, the performance of each alternative against the key parameters is assessed to identify the viable and non-viable alternatives. Finally, the managers must spell out clearly the possible positive and negative aspects of each alternative, especially as to how the alternatives address the goal requirements.

Deciding on the best alternative—After an analysis of the alternatives, managers must choose one best alternative for implementation. It is not possible for managers to pick up an alternative that has no possible negative consequences. Normally, they opt for a solution that has the highest probability of positive outcome with the least negative consequences. While choosing the best alternative, managers might consider the views and opinions of the higher authorities, employees and other participants. By choosing an alternative, the manager commits both time and organizational resources towards it. Quite often, such commitment becomes irreversible without substantial loss. Understandably, the managerial decision involving the selection of the best alternative has been the most crucial aspect of any planning process.

Describing the plan details[48]—Once the best alternative has been decided, it must then be implemented. Prior to its implementation, the plan details must be communicated to the employees responsible for its execution. Managers must describe the goals and plans to the employee in a comprehensive and timely manner to ensure their involvement and cooperation. Improper and inadequate information sharing may result in employee mistrust and apprehension about the motives of the plan.

Discussing the plan outcome—Once the plan is put into action, it is necessary for the managers to conduct “ongoing” or “end of plan” evaluation or both. Since planning is a continuous activity of the management, plan monitoring, evaluations and feedback are important aspects of the planning process. Midterm evaluation can help managers to check and ensure that the plans are leading to the desired end. In the event of deviations, managers can make instant corrections in the plan and avoid plan failures. The “end of plan period” evaluation can facilitate a thorough revision of future plans based on plan evaluation. Management can conduct feedback sessions with plan participants and beneficiaries to ascertain their views and complaints. Plans are usually evaluated in terms of costs, time limits and performance quality.

While formulating and implementing several plans at a time, managers must ensure that different plans are properly balanced and integrated so that they support one another and work in unison. In a dynamic environment, it is essential for the managers to continuously update the planning process by identifying and eliminating the weaknesses in the process on a real-time basis. The planning style of the Aditya Birla Group is discussed in Box 4.2.

Box 4.2
Corporate Cell—Planning Style of the Aditya Birla Group

Organizations carry out various kinds of planning ranging from highly complex to simple and basic. Depending on the needs and nature of the organization, managements can choose their own methods and techniques in the process of planning. The planning process of the Aditya Birla Group presents an interesting case.

The Aditya Birla Group has a corporate cell which provides a strategic overview to the management and also acts as a corporate consultant. This corporate cell is multi-dimensional in nature as it attends to the planning needs of the different group companies. The important cells of this group are Central Cell, Corporate Economics Cell, Corporate Affairs and Development Cell, Corporate Communications and CSR Cell, Corporate Finance

Group Cell, Group Human Resources Cell, Group Information Technology Cell, Corporate Legal Cell, Corporate Management Audit Cell, Corporate Safety Cell, Health and Environment Cell and Corporate Strategy and Business Development Cell. Let us see the functioning of a couple of cells.

The Central Cell assists the chairman in strategic planning and monitoring of the group businesses. It supports the chairman in driving the planning and budgeting processes, conducting regular reviews and evaluating business performance, decision making on capital expenditure proposals, and formulating and implementing strategic initiatives.

The Corporate Economics Cell (CEC) interprets the business environment by continuously tracking, assessing, analysing and forecasting global and domestic economic trends and policies. It provides analytical inputs and economic information to different decision makers in the group at the corporate as well as business levels.[64]

Planning Premises

Planning premises refers to the assumptions or future settings against which planning would be carried out. In simple terms, planning premises can be viewed as the environment of plans in operation.[49] It is concerned more with the external business environment of the organization. Planning premises can be defined as “the anticipated environment in which plans are expected to operate. They include assumptions and forecasts of the future and known conditions that will affect the operations of plans.”[50] The anticipated environment of planning is often influenced by factors like marketing conditions, price levels, laws, government policies and regulations, political stability, population trends, tax structure, trade cycles, business location, labour market conditions, capital availability, material and spare parts availability and so on. Planning premises are capable of influencing the planning process, particularly the goal determination and plan implementation stages.

The determination of planning premises is actually the result of forecasting the future environment by managers. This forecasting is crucial not only to determine the plans but also to work out the planning premises. However, the focus of forecasting is on the general business environment when determining the planning premises. In contrast, the focus of forecasting in planning is on business-specific factors such as future returns from investments.

Planning premises are often organization-specific or industry-specific and they are rarely common for all types of organizations. Planning premises can be classified into internal premises and external premises. Internal premises are organizational-specific factors like sales forecasting, supplier constraints and distribution bottlenecks. External premises are general environmental factors that are external to the organization. Factors like socio-economic environment, political and legal environments, industry environment, product market conditions and labour market conditions constitute external premises.

Effective and accurate planning premises ensure the following: (i) development of well-organized plans, (ii) decrease the risks of uncertainty in environment, (iii) improve coordination among the different elements of planning, (iv) increase plan flexibility and (v) improve the success rate of plans.

Barriers to Effective Planning

Organizations are managed and controlled by the top executives only through a series of plans. The nature and type of planning also indicates the philosophy, attitude and the outlook of the management. Further, planning also helps the employees form an opinion about their employers. Through effective planning alone, management can assure itself of good governance, employee cooperation and mission accomplishment. However, the effectiveness of planning is undermined by the presence or absence of a few factors. It is essential for the managers involved in the planning process to know these factors. Let us now discuss barriers to planning.

Unsuitability of goals—Goals that are difficult to be measured or verified can undermine the effectiveness of planning. For instance, job satisfaction of employees is difficult to be quantified, and hence goals pertaining to employee satisfaction are difficult to be measured. Similarly, impracticable, unethical or over-ambitious goals can also affect the effectiveness of planning. For example, driving the competitor out of market through unethical methods or bribing official for receiving favours are examples of unethical goals. Further, misalignment among organizational goals like promotion of one goal to the disadvantage of other equally important goals can also harm the planning as well as the business interest. For instance, overemphasis on credit sales target may have a negative effect on the goals of the debt collection department.

Dynamic environment—Generally, plans are more suitable for stable environments. Managers operating in a rapidly changing and complex environment may find the environment difficult to develop effective planning. The problem of planning under dynamic environment is more difficult in long-term planning than in short-term planning.

Fear of failure—Plans are made for the future, which is full of uncertainty. The future may hold surprises for even meticulously prepared and well-laid out plans. The risk of unexpected and sudden developments often discourages managers from undertaking planning in a real and extensive manner. Further, goals and plans often create expectations about managers and the failure of plans can be viewed as the managers' personal failure. The fear of failure and consequence of failures act as barriers to effective planning by managers.

Resistance to changes—Plans will arouse resistance when employees perceive the need to change the manner in which they do their job. Since plans are often viewed as an instrument of change, employees may tend to oppose them as a matter of routine. Such resistances may cause anxiety and hesitation among managers and also discourage them from undertaking the planning exercise.

Inadequate resources—The success of planning often depends critically on the resources made available to it. In the event of non-availability of adequate resources, managers may be forced to curtail plan-related activities. Inadequate budgetary support and the resultant compromises can undermine the effectiveness of planning. Further, the over- or underestimation of resources and capabilities can also cause problems for managers at the time of plan implementations.

Lack of effective communication—Adequate and timely communication of goal and plan details is a prerequisite for effective communication. When there is difficulty in communicating plans to the participants, the plans may fail due to the absence of proper understanding, coordination, employees' commitment and cooperation. Poor communication may be caused by the employees' language or cultural differences, managers' poor communication skills, complexity of planning process and ineffective communication instruments.

Absence of creative thinking—A constant flow of new ideas is essential for planning in a dynamic environment. The development of new ideas, products, methods and technology is possible only for people with creative thinking. Managers with stale and standardized thoughts often fail as planners due to their inability to think originally and grow in new directions while formulating plans. These managers also fail to inspire the employees and bore them with unimaginative and unremarkable plans. The smartest managers are those who are able to spot and nurture great ideas from little expected sources.[51] Understandably, the lack of creativity in the planning process can also be the result of exclusions of employees in idea generation and plan development.

Managers' indifference—Managers' preoccupation with routine work and their tendency to focus more on immediate results may make planning a less important activity in their busy schedule. Managers often find it difficult to allot the required time to plan properly due to their hectic nature of work. They are also less motivated to spend their time for preparing broad plans that may benefit them and their organization only in the long term.

Lack of follow-ups—Feedback allow the planning system to change its performance to achieve the desired results.[52] However, in practice, little attention is paid to the participants' feedback and plan follow-ups as long as the plan goals are attained. Managers fail to understand that it is not enough to know that the plan is working well, but they also need to know why and how it works. When they do not know, it will be difficult for managers to solve when a plan goes wrong or when circumstances change. Managers' attitude of managing plans by results alone can affect the effectiveness of the planning process.

Inaccurate planning premises—The planning process is mooted under certain assumptions of future events. The accuracy of these assumptions is determined by the ability of the managers to forecast the role and relevance of mostly environmental factors in influencing the planning process. In the event of inaccurate assumptions, plans are bound to fail due to the increased risk of uncertainty, poor coordination, etc.

Informal and casual planning—Managers often make informal short-term plans to tackle an emerging situation. Such an informal approach to planning may lead to the negligence of long-term goals, problems and interests of organizations. The absence of formal planning guidelines may lead to *ad hoc* and inconsistent plan development and execution.

Expensive exercise—Planning is often viewed as a costly and time-consuming exercise by many organizations, especially the small and medium ones. The cost of planning further goes up as the planning becomes more complex, elaborate and formal. The difficulties of managers in justifying the high cost of planning, often reduce planning to an inconsequential exercise.

Steps to Make Planning Effective

Planning must lead to success rather than failure. If for some reasons planning fails, it may cause crisis and panic, which may be costly and painful for the organization. It is therefore imperative for managers to carry out continuous improvements in the planning process to make it effective. We shall now discuss a few requirements that can make planning an effective exercise.

Top management support—The success of any planning process critically depends on top management's support, commitment and involvement. The active and sincere involvement of higher managements in the planning process usually inspires confidence and collaboration among lower levels of management. Moreover, the plans that require major changes in the organizations' practices, structure and style must enjoy the full patronage of the top management for its successful implementation.

Proper and timely communication—Effective communication plays a pivotal role in the success of planning process. Without adequate communication within the organization, goals become unclear and plans lack coordination. Top management must make certain that managers are well-trained in communicating the plans, goals, policies and procedure to employees. It must also ensure the presence of a well-organized system for communication among different groups involved in planning and execution activities. This would ensure that everyone connected with planning has a common understanding of how and when plans are to be formulated and implemented.

Adequate availability of resources—Adequate resources must be committed to the development and implementation of effective plans. In this regard, managers must make an accurate assessment of plan requirements in terms of organizational resources and ensure that these resources are utilized in a timely and effective manner.

Constant revision and updating—Specific and sincere feedback about the efficacy of planning process should be obtained from the plan participants and other stakeholders of business. Such feedback must form the basis for reviewing the planning process and also for initiating changes and improvements, if necessary.

Participatory approach—It refers to the wider involvement of employees in the planning and goal-setting process. In organizations, participatory approach to planning improves motivation, learning, self-esteem and feeling of ownership among employees. Participation in planning also makes employees partly responsible for the success or failure of plan initiatives. Management can involve employees at every possible stage of the planning process. Employee participation is also the best way to overcome the resistance to the planning process.

Adequate rewards—Plan-linked rewards play a major role in securing the willing cooperation of organizational members for plan implementation. Management must ensure the presence of rewards for effective execution of organizational plans. It must also make sure that employees are aware of the existence of these rewards.

Sufficient and effective control—Planning and control are highly dependent on each other for effectiveness. For instance, effective planning is also a prerequisite for effective control.[53] Management must analyse, identify and eliminate the deficiencies in the existing controlling practices. It should then put in place an effective mechanism for constantly monitoring and controlling the planning activities.

Positive attitude—Managers with a positive attitude can handle any situation courageously. Further, positive thinking enables managers to take chances or risks in their jobs. Further, positive managers tend to view difficulties in the environment as challenges and tackle them confidently. The principle of positive thinking helps managers to offer their best in any situation.[54] Organizations must cultivate a positive attitude among its members by developing a positive culture and thought process.

Climate for creativity—Organizations need to develop a climate that encourages and rewards people who exhibit creativity, risk-taking attitude and free-wheeling thoughts in goal setting and planning. Members must also have enough freedom to express their ideas, opinions and oppositions while formulating plans. Since creativity in the planning process is important to avoid obsolescence and increase performance, managers must: (i) develop a desire to be creative, (ii) accept that each problem has some creative solution and (iii) believe that they are the ones to find it.

Accurate planning premises—Plans may fail due to wrong assumptions about the expected environmental conditions at the time of plan execution. Planning assumptions or premises often go wrong due to inept forecasting of the future. Managers must improve their forecasting skills and techniques to make more accurate planning assumptions and premises.

Proper integration of goals—Overall goals of organizations are typically accomplished through a series of interdependent but dissimilar goals and plans. In the absence of proper coordination, these goals and plans may work with cross purposes leading to their failure. It is hence essential for management to ensure proper coordination among two or more interdependent plans executed to achieve a common goal.

Management by Objectives

Management by objectives (MBO) is a popular management technique. MBO encourages joint goal setting to develop and achieve the objectives of the organization, the department and the individual. This concept was popularized by the renowned management thinker, Peter F. Drucker, in his book, *Practices of Management*, published in the year 1954. MBO is now extensively used for goal setting, planning and performance evaluation. The uniqueness of MBO is that it enables the subordinates to get involved in the evaluation process by setting their own goals. In this way, it aims at ensuring active employee involvement in the planning process. Basically, MBO involves the joint setting of specific and measurable goals by managers in consultation with the employees. They also subsequently examine the employees' progress toward those goals.

Definitions of MBO

The definitions on MBO describe the joint goal setting by superiors and subordinates. Let us now look at a few definitions.

"Management by objectives is a formal set or procedures that establishes and reviews progress toward common goals for managers and subordinates." —James Stoner.[55]

"Management by objectives is a process of setting mutually agreed upon goals and using those goals to evaluate employee performance." —Stephen P. Robbins.[56]

"Management by objectives is a motivation technique in which managers and employees collaborate in setting goals." —William M. Pride.[57]

Features of MBO

Based on the definitions of MBO, the following features are surmised:

1. MBO is a system or process designed for supervisory managers who directly deal with employees.
2. It places relatively more emphasis on goal formulation (what should be accomplished) than goal execution (how it is to be accomplished).
3. In MBO, discussions and agreements are inherent features of the goal setting and planning process. In traditional planning, goals are passed down from the managerial levels to lower levels and the employees are directed to accomplish those goals.
4. Managers and subordinates jointly set specific goals that are to be accomplished within a specific time frame.
5. Subordinates are held directly responsible for the goal outcomes.
6. Goal progress reviews and revaluation meetings between superiors and subordinates are essential for MBO.
7. Mutually-agreed objectives act as yardsticks or standards on which the performance of subordinates is evaluated.
8. In MBO, goal accomplishment becomes the sole basis for assessing and rewarding subordinates.

Managers need to identify the key result areas (KRAs) in organizational activities as part of MBO. KRAs are the priority areas with significant influence on an organization's overall growth and performance. The MBO process must give due attention to the continuous improvement of KRAs so that the desired level of organizational performance or growth is achieved. For instance, finance may become a key result area of some organizations while a few others may consider marketing as their KRA.

The philosophy behind MBO is to enable subordinates to have a clear understanding of their roles and responsibilities in their job. They should also understand how their activities lead to the accomplishment of the organization's goals. In a narrow sense, the MBO philosophy involves joint goal setting with subordinates and its periodic review by the superior. In a broader sense, MBO involves the following phases (see Figure 4.4):

- **Projecting goals**—Subordinates are asked by their superiors to propose their own preliminary goals for a given period of time, in harmony with the corporate and department goals.
- **Discussing goals**—Superiors and subordinates elaborate on the goals and, if necessary, modify them before reaching an agreement regarding the specific goals.
- **Developing yardsticks**—Superiors, in consultation with the subordinates, develop yardsticks for measuring performance to determine how far the objectives have been met.
- **Executing performance reviews**—Superiors review the employees' actual and agreed performance periodically to assess the progress and problems in goal accomplishment.
- **Providing feedback**—After assessing the progress, superiors should discuss with the subordinates the ways and means for improving performance, if needed.

Figure 4.4
Phases of MBO

MBO, as a modern management technique, brings many benefits to the organizations practising it. The chief benefit of MBO is that it can increase organizational effectiveness through optimum utilization of human and physical resources. The other important benefits are: (i) It creates a sense of commitment among employees for goal accomplishment; (ii) It empowers employees to make decisions and improves their motivation and job satisfaction. It also makes employees feel that they are an important part of their organization; (iii) It helps maintain harmony in the employer–employee relationship through periodic reviews and interactions between the managers and employees and (iv) It is basically a non-specialist technique which can be used by all types of managers.

Though MBO is a complete system of planning and control and a complete philosophy of management,[58] it suffers from a few limitations. They are: (i) MBO is a time-consuming process since it involves continuous goal setting, frequent reviews and constant feedback; (ii) This method is found to work well for managerial jobs only as goal setting for employees at non-managerial levels is usually not feasible[59] and (iii) MBO remains a non-starter unless the process begins at the top managerial levels of the organization.[60]

SWOT Analysis

Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis is a technique suitable for early stages of the strategic planning process. This technique was introduced by Albert S. Humphrey in the 1960s. SWOT analysis is useful for all types of organizations, management functions and activities. It helps the management to summarize, structure and evaluate the information gathered on the organization's internal and external environments as a part of the planning process. This analysis enables organizations to see both the positive and negative sides of situations. It helps organizations to decide whether their goals and objectives are attainable or not. In case the results of SWOT analysis project the goals as unattainable, managers can quickly formulate alternate goals. Sometimes, SWOT analysis is done even before the formulation of goals and objectives. This allows organizations to set only attainable goals and objectives. However, the effectiveness of goal setting depends on the accuracy of SWOT analysis. Generally, SWOT analysis focuses on the internal strengths and weaknesses and the external opportunities and threats of the organization.

The common purpose of SWOT analysis is to help organizations to exploit their strengths, address their weaknesses, capitalize on the opportunities and deter threats. Typically, internal strengths and external opportunities available to an organization facilitate its goal accomplishment. In contrast, the internal weaknesses and external threats act as hindrance to goal realization. We shall now briefly discuss the different elements of SWOT analysis.

- **Strengths**—An organization’s strengths may come from its resources, people, products, potentials, capacities, practices, programmes, past successes, etc. In this, the strength of people may include the unique knowledge, skills and abilities of the employees that provide competitive advantage to an organization. Unique management styles, large size and good public image of an organization, effective training and development programmes for employees, strong customer loyalty, well-built capital base and best compensation policies are a few examples of strengths of the organization.
- **Weaknesses**—Internal factors that cause obstacles to the growth of an organization are its weaknesses. The same factors that constitute the strengths of one organization can be the weaknesses of another organization. Resource constraints, uncooperative attitude of employees, high absenteeism and labour turnover, poor competitiveness, absence of employee training, lack of effective control and outmoded practices are some of the general weaknesses of organizations.
- **Opportunities**—They may include positive situations and factors related to the business of the organization but remain outside its control. Organizations usually seek to benefit from these opportunities by formulating new goals or modifying the existing goals. New government policies, new markets, exit of competitors, availability of new technology, change in interest rates and change in population characteristics are some of the external opportunities available to organizations.
- **Threats**—Threats are the developments in the external environment that can directly and negatively affect the business interest of organizations. Organizations normally have little or no control over these developments that may pose danger to their survival or growth. Adoption of new business strategy by the competitors, political uncertainty, entry of overseas competitors, exchange rate fluctuation, economic slowdown and negative publicity about a company and/or its products are some of the threats that can have an impact on the organization.

Once information on internal and external environments is gathered, managers in consultation with

SWOT analysis experts can conduct specific, goal-oriented and need-based analysis of the information. While carrying out SWOT analysis, managers must see whether the existing organizational strengths can help in exploiting the emerging opportunities. They must also check whether the elimination of weaknesses could open new opportunities for the business. While dealing with business threats, managers must decide whether these threats are manageable or not, and whether they pose short-term or long-term threats to the organization before deciding on the future course of action.

Evaluation of SWOT Analysis

SWOT analysis has some important benefits for organizations. They are:

- It provides a framework for formulating and reviewing the goals and plans of an organization.
- It helps an organization to conduct a self-evaluation to know exactly what its present position is and in which direction it can go in the future.
- It helps organizations to recognize the core capabilities and competencies that can eventually be developed into a competitive advantage.
- It enables managers to develop a balanced perspective of the organizational situation by presenting both the positive and negative sides of it.
- It enables managers to make rational, logical and convincing arguments before the top management while seeking its approval for goals and plans.

However, SWOT analysis cannot be completely trusted for decision making. This is because a lot of subjectivity is involved in the analysis of information pertaining to internal and external environments of the organization. It also has a few other limitations that can undermine the importance of SWOT analysis as a planning tool. These limitations are:

- It is an overview approach or general idea unsuitable for the present day diverse and highly volatile markets.
- It merely describes the situation in a matter of fact style without any worthwhile analysis.
- Managers make use of SWOT analysis only at the time of goal formulation and tend to ignore it later. In other words, it does nothing for mission or goal accomplishment. In a dynamic environment, managers need to perform SWOT analysis at periodic intervals all through the plan period to identify the recent trends in the environment. This, they may find it difficult to do.
- SWOT analysis is a time-consuming and tiring activity for the managers of large organizations as they have to consider too many factors and convince too many people in the hierarchy.

- Instead of prioritizing the elements of strengths or weaknesses useful for decision making, the SWOT analysis simply generates the lists of strengths, weaknesses, opportunities and threats pertaining to the organization. Managers may be inclined to compare the longer list of strengths with shorter list of weaknesses to conclude that the organization is performing well. No meaningful comparison is possible without knowing the relative worth of each of these strengths or weaknesses to the organization.

Strategic Quality Planning

The improvement of quality standards has become one of the primary areas of strategic planning. Different organizations are adopting different quality strategies (plans) as a part of their quality initiatives. Fast-paced developments in quality management and quality control fields have also forced organizations to set new quality goals and devise quality plans. Total Quality Management, Kaizen, Business Process Reengineering, Quality Function Deployment, ISO 9000:2000, Six Sigma and Lean Manufacturing are some of the latest quality concepts that have vastly enhanced the importance of strategic quality planning in organizations.

Several organizations tend to view strategic quality plans and business plans as inseparable. This is because customer satisfaction—an essential quality measure—is dominating both the strategic quality plans and business plans. However, strategic quality planning becomes the core activity of an organization when it wants to make quality a tool to achieve competitive advantage in the market.

In strategic quality planning, it is absolutely important for managers to have clear customer focus at every stage of plan development. They should learn to understand and respond to the voice of the customers concerning the organization's products and services and its delivery mode. In this regard, top management must first create a statement of quality before developing any strategic quality plans. The statement of quality will enable managers to understand the top management's attitude towards quality assurance, quality management, control and improvement. It also tells the stakeholders the stand of the organization regarding quality. Based on the statement of quality, managers develop strategic quality plans for realizing quality vision and goals of the organization. Quality plans are measured with the help of predetermined quality standards. Managers must ensure the willing cooperation of the employees in the execution of quality plan initiatives.

Steps Involved in the Strategic Quality Planning Process

We shall now briefly discuss the steps involved in a typical strategic quality planning process.

Ensuring customer focus—In strategic quality planning, the primary focus is on identifying and understanding customer needs, expectations, aspirations and preferences. Customers define and judge an organization's quality initiatives by accepting or rejecting its products or services. As such, customers alone drive the quality initiatives, goals and plans of the organization. The quality expectation of customers must be understood well by the quality planners. These planners must define their specific expectations regarding market, customer base and product. They must also decide whether they want to retain, expand or reduce the customer base.

Ascertaining industry benchmarking—Benchmarking is the process of comparing an organization's business practices to industry best practices. The best practices from other industries can also be compared. The important dimensions of such benchmarking are quality, time and cost. Among them, quality is a common dimension for benchmark comparisons. As part of strategic planning process, managers typically focus on quality dimensions and ascertain the best quality practices available outside. They also decide how they may be introduced or applied in their organizations.

Examining strategic vision and mission statements—Vision and mission statements are essential elements of the planning process. Strategic vision and mission statements provide a sense of direction for the organization as a whole. Since strategic vision and mission are capable of guiding an organization's strategic choices such as strategic quality planning, management, improvement and control, they should be carefully examined. Top management can also show its commitment to quality by making a special mention of it in its mission statement. Quality planners should first understand the organization's commitment to quality through the vision and mission statements before choosing the appropriate quality goals and plans.

Developing statement of quality—Before formulating quality goals, planners need to develop a relevant statement of quality if the organization does not have a quality statement already. In case a statement of quality already exists, it has to be examined to ensure that it is still relevant. The statement of quality will identify the overall goal and objective of quality for the organization. It also specifically tells the employees and others about their organization's pursuit for excellence. A quality statement lays out the organization's working practices and commitment to providing good quality products and services. It also explains how effective and efficient is an organization's methods of carrying out its promise to the customers. Box 4.3 shows the quality statement of the UB Group.

Establishing quality standards—Quality standards are actually the measurements that help identify the extent of employees' commitment to the quality statement. Quality standards developed by planners are expected to ensure that employees perform their activities within the scope of a quality assurance programme. Quality standards also ensure that employees follow their established policies and procedures in the performance of their work.

Preparing quality strategies—Planners develop quality plans or strategies. As a part of this task, planners should first identify the gap between the current state and the expected future state of the organization as described in the mission statement.[62] Quality strategies are prepared to close the quality gaps, if any, by establishing relevant and specific goals and responsibilities. Quality strategies are expected to convert the strategic quality vision and quality statement into reality. Quality strategy will tell precisely what the organization will do over the plan period to ensure that the statement of quality is fully achieved.

Box 4.3
Quality Statement of the UB Group

The quality statement of one of the leading Indian companies, UB Group, reads as follows:

Quality leadership is vital to the long-term success of the UB Group in an increasingly competitive marketplace.

Building quality into our workplace, products and service is essential to a successful future for our customers, employees, suppliers, communities and shareholders. The UB Group will work to provide products and services that always meet or exceed expectations. Management will commit resources and create an environment in which each employee can contribute skills, talents and ideas to a never-ending process of improvement and innovation in all aspects of our business.

Developing strategy measurements—The development of the right measures is critical to the efficient implementation of quality strategies. Planners must ensure that strategy measures are relevant, useful and specific. The right measures will provide the basis for determining how well an organization meets its quality strategies and how close they are to goal completion.

Implementing quality strategies—Strategy implementation is the process of allocating resources to support the chosen strategies. This process includes the various management activities that are necessary to put strategy in action, monitor progress and eventually attain organizational goals. The implementation of quality strategies involves designing the organization's structure, allocating resources, communicating information and decisions and managing human resources. It also involves the task of overcoming resistance to changes through appropriate change management techniques.

Summary

1. Planning is a process of establishing need-driven goals that synchronize the organizational activities and developing ways for accomplishing those goals.
2. Planning is an important function, since it: (i) improves performance, (ii) enables a proactive approach, (iii) facilitates future-focused management, (iv) ensures better coordination, (v) acts as the basis of controlling, (vi) enhances employee communication and involvement, (vii) achieves objectivity in decision making, (viii) achieves cost-effectiveness and (ix) provides legitimacy.
3. Goals are the preferred or predetermined results organizations seek to achieve through their planned actions. The different types of goals are mission, objectives and goals.
4. Plans can be classified into strategic planning, tactical planning and operational planning based on the scope and degree of details**.** Short-term plans, intermediate plans and long-term plans are based on time horizon. Single-use plan and standing plan are based on the frequency of use. Specific plans and directional plans are based on specificity.
5. Single-use plans are further classified into (i) programmes, (ii) projects and (iii) budget while standing plans are classified into (i) policies, (ii) procedures and (iii) rules and regulation.
6. Strategy means a systematic and detailed plan of action. The three major levels of strategy formulation are corporate, business and functional levels. Corporate-level strategy is further classified into growth strategy, portfolio strategy and parenting strategy.
7. The three approaches to planning are: (i) top-down execution and responsibility approach, (ii) bottom-up execution and responsibility approach and (iii) top-down policy and bottom-up planning and execution approach.
8. Steps in the planning process are: (i) determination of goals and objectives, (ii) discovering the environmental changes, (iii) development of the alternatives, (iv) detailing the alternatives, (v) deciding on the best alternative, (vi) describing the plan details and (vii) discussing the plan outcome.
9. The barriers to effective planning are unsuitability of goals, dynamic environment, fear of failure, resistance to changes, inadequate resources, lack of effective communication, absence of creative thinking, managers' indifference, lack of follow-ups, inaccurate planning premises, informal and casual planning and expensive exercise.
10. Planning can be made effective through top management support, proper and timely communication, adequate availability of resources, constant revision and updating, participatory approach, adequate rewards, sufficient and effective control, positive attitude, climate for creativity, accurate planning premises and proper integration of goals.
11. Management by objectives is a process of setting mutually agreed upon goals and using those goals to evaluate employee performance. MBO involves projecting goals, discussing goals, developing yardstick, executing performance reviews and providing feedback.

12. The purpose of SWOT analysis is to help organizations to exploit their strengths, address their weaknesses, capitalize on the opportunities and deter threats so that its goals and plans are accomplished.
13. The improvement of quality standards is one of the primary areas of strategic planning. The steps involved in the strategic planning process are ensuring customer focus, ascertaining industry benchmarking, examining strategic vision and mission statements, developing statement of quality, establishing quality standards, preparing quality strategies, developing strategy measurements and implementing quality strategies.

Review Questions

Short-answer questions

1. State the meaning and definitions of planning.
2. Examine the characteristics of planning briefly.
3. What are the four orientations to planning?
4. What are different types of goals?
5. Explain briefly the types of single-use plans.
6. Distinguish between specific plans and directional plans.
7. Write a note on scenario planning.
8. What do you mean by top-down policy and bottom-up planning and execution approach?
9. State the salient features of MBO.
10. Mention the fundamentals of SWOT analysis.
11. What is meant by strategic quality planning?

Essay-type questions

1. Describe the four orientations to planning.
2. Discuss the essentials of effective goals.
3. Elucidate the types of planning based on the scope and degree of details.
4. What are the differences between strategic, tactical and operational planning?
5. How will you classify planning based on time horizon?
6. Describe the different plans classified on the basis of frequency of use.
7. Evaluate the essential characteristics of effective policies.
8. Explain how plans can be classified on the basis of specificity.
9. Planning is trap to capture future-Substantiate this statement.
10. Give a brief account of: (i) scenario planning and (ii) contingency planning.
11. Illustrate with examples the different types of strategies.
12. Describe in detail the approaches to planning.
13. Enumerate the steps in the planning process with appropriate examples.
14. Examine the need to keep planning premises while planning.
15. Discuss the barriers to effective planning and also state the steps necessary to make planning effective.
16. MBO is a joint goal setting process. In the light of this statement, explain how goals are formulated under the MBO process.
17. Critically evaluate the utilities of SWOT analysis in planning and decision making.
18. Examine the steps involved in the strategic planning process.

Case Study

Concentration vs. Dispersion Strategies—Two Competing Approaches

PepsiCo and Coca-Cola (Coke) are the global giants in the food and beverages markets. These two companies have been competing for market honours since 1899, the year PepsiCo made its market entry. It was found out in a blind taste test conducted several years ago that more people preferred the taste of Pepsi to Coke. As a result of this test, Coca Cola reformulated its cola taste and marketed it as the new Coke but without much success. In fact, PepsiCo stood to gain from Coca Cola's misadventure with its new Coke. However, PepsiCo also committed several strategic mistakes of its own and the cumulative effect of these follies is that it began to lose its market share to Coca Cola.

To regain the slipping profits and business volume, PepsiCo began to adopt the strategy of "looking beyond" the beverage business. The CEO of PepsiCo, Indra Nooyi, concentrated more on future-oriented "healthier-for-you" kind-of foods than on far more profitable "fun-for-you" products like Pepsi Cola and Cheetos. The new strategy of modifying the products and emphasizing on the nutrition business not only enabled PepsiCo to gain about $10 billion in revenues but also provided it with the potential to earn about $30 billion by 2020.

However, Coca-Cola continued to focus on its core business of selling soft drinks without caring for what PepsiCo has been doing. The persistence of Coke ensured that it remains almost uncontested in the highly-profitable beverage business. Now, there is growing concern among the investors of PepsiCo that the company's push into healthier products has distracted the company from its core products like beverages. Investors are also anguished that PepsiCos' management has ignored its biggest sellers like Pepsi Cola, Lay's potato chips, etc. A few also feel that the company needs to do something to boost the sale of its core products so that it not only makes profit but also grows. To regain the slipping market share and profit in the beverages market, PepsiCo management has decided to cut 8,700 jobs worldwide and also spend anywhere between $500 and $600 million more on advertising and marketing to bolster its iconic brands. At the same time, the top management of PepsiCo is betting big on creating healthy foods brands as it firmly believes that its long-term strategy to grow its nutrition business will bring about handsome returns.

Questions

1. How do you assess the strategies of Coca-Cola and PepsiCo from the planning perspective?
2. Which of the two companies' strategies is superior from the long-term and short-term perspectives? Why?
3. What are your specific suggestions to the management of PepsiCo?

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CHAPTER 5

Decision Making

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the definition and characteristics of decision making
2. Enumerate the approaches to decision making
3. List the kinds of decision making environments
4. Explain the strategies for decision making
5. List the types of organizational problems and decisions
6. Understand the decision-making styles
7. Enumerate the process of rational decision making
8. Discuss the factors influencing the decision-making process
9. Understand the challenges to effective decision making
10. Explain decision tree
11. Overview group decision making
12. Understand the decision support system

India's Inspirational Managers

Ratan Tata is the former chairman of Tata Sons—the promoter company of Tata Groups. Ratan Tata proved himself to be a master decision maker through Tata's successful acquisition of several giant transnational companies such as Tetley, Jaguar Land Rover and Corus. The daring decision of Tata Steel to acquire Anglo–Dutch steel producer Corus—a company which was almost three times bigger than Tata Steel' for USD 12.1 billion—demonstrates Ratan Tata's astute decision-making skills. His managerial and decision-making skills won him many accolades in national and international forums. For instance, Yale University gave him the Legend in Leadership Award in 2010. He was also a recipient of NASSCOM's Global Leadership Award in 2008. Ratan Tata's managerial philosophy includes: (i) fostering high value systems and ethical standards, (ii) undertaking bolder and larger endeavours in the place of small increases and timid growth, (iii) playing down individuals and playing up the team, (iv) adapting new technologies, (v) going global for achieving a meaningful presence, (vi) empowering employees and creating an exciting work environment, (vii) providing equal opportunities for all employees and (viii) caring for all customer segments.

Keeping the decision-making and other managerial skills of Ratan Tata in mind, we shall now elaborate on the various aspects of decision-making activities.

Introduction

Decision making involves selection of the best option from the available options. Managerial decision refers to the decisions made by the managers for solving organizational problems. Decision making is part of all managerial functions of the organization. However, there are usually differences in the nature, scope and pattern made at different levels of management. Decision-making skill is critical for every manager as it determines their success in the job. Most managerial decisions are irreversible and also impact the future fortunes of the whole organization. Hence, managers must possess relevant knowledge, skills, experience, creativity and boldness for making efficiency decisions in different situations. However, the efficiency of any managerial decision is usually determined by two primary factors, namely, decision quality and acceptance.[1]

Decision making as a part of the problem-solving process usually has three components. They are input (organizational problems), process (management) and output (solutions to problems). A successful output requires wise decision making by managers based on quality thinking and self-confidence. Managers must have the ability not only to make the right decision but also to defend their decision. For effective decisions, managers must know how to choose the best option for decision making, how to use tools for decision making, how to avoid common errors and how to enhance the quality of decisions.

Definitions of Decision Making

Decision making is the logical response of managers to any problem situation. It involves the process of evaluation and selection of alternatives for solving the problem. Thus, choosing the best solution for organizational problems is the essence of many definitions of decision making. Let us look at a few definitions.

"Decision making is the process of identifying and selecting a course of action to solve a specific problem." —James Stoner.[2]

"A conscious choice among alternatives followed by action to implement the choice is decision making." — Thomas N. Duening and John M. Ivancevich.[3]

"Decision making is the process of identifying and choosing among alternative courses of action in a manner appropriate to the demands of the situation." — Robert Kreitner.[4]

We may define managerial decision making as the process of identifying the best solution to an organizational problem after giving due consideration to all possible solutions and environmental constraints.

Characteristics of Managerial Decisions

Managerial decision making is a crucial and continuous task carried out by managers. It requires systematic, and timely action from managers. Such managerial decisions will usually have the following characteristics:

- **Future-oriented**—All managerial decisions consider and decide only the future course of actions. These decisions are oriented towards a future period of time. However, the past and present information are essential inputs for determining the future course of action.
- **Choice-based**—The important prerequisite of decision making is the availability of more than one choice for resolving the organization problems. Decision making is meaningless when the problem has only one possible solution without any alternative choices or solutions.
- **Inbuilt uncertainty and risk**—The outcome of any decision is neither known in advance nor accurately measured before implementation. Understandably, all decisions are characterized by certain degree of uncertainty and risk.
- **Goal fulfilment**—Similar to any other managerial activity, decision making also primarily aims at accomplishing the objectives, plans and goals of the organization. These organizational goals and objectives generally guide the managerial decision-making process.
- **Intangibility**—Similar to other managerial functions, decisions are also intangible in nature. But, decisions are real activities that run

through the entire organization. Decisions are capable of influencing the activities of the organization and its members.

- **Analytical approach**—Managerial decisions require analytical approach to the problem-solving process. Analytical approach actually means a creative, analytical and practical approach to problem solving[5]. Analytical approach helps managers in objectively assessing the problem and also in taking logically sound decisions.

Approaches to Decision Making

Historically, two alternative approaches are available to decision making. They are classical approach and behavioural approach. The classical decision approach or theory views the managers as acting under a perfect decision environment in a world of complete certainty. In contrast, behavioural decision theory assumes that the decision makers act only in terms of what they perceive about the environment. This is because they operate in a world of uncertainty and may not have complete information about the environment. (Decision environments are elaborated a little later in this chapter.)

A third approach called "garbage can" model. As per this approach, all the components of the decision process such as problems, solutions, participants and situations are mixed up in the "garbage can" of the organization. Decision makers should ensure that specific problems are matched to specific and appropriate solutions in an orderly manner.[6] This model views decision making as a highly unstructured process and that the decisions often begin with solutions and not problems. In this regard, it assumes that problems arise just after solutions emerge. For instance, when an organization develops high quality products, it has to find ways to market them.

Decision-making Environments—Types

The decisions of managers are normally influenced by the environment in which the decisions are made. The decision environment is made up of cultural factors, legal factors, political factors, organizational factors and other information available at the time of decision making.[7] When the decision environments are created through accurate, adequate and timely information, they can improve the effectiveness of decision making. In practice, it is difficult to develop a perfect decision environment because of information and time constraints. Due these constraints, managers usually operate under one of the three different kinds of decision environments while making decisions. They are: (i) decision environment under certainty, (ii) decision environment under risk and (iii) decision environment under uncertainty. We shall now discuss them briefly.

Decision Environment Under Certainty

When the information available for decision making is adequate and perfect for accurate prediction, then the environment can be described as certainty. In such an environment, managers can identify and evaluate each alternative solution to a problem properly and also predict their outcomes accurately. For instance, when the purchase manager has all the details of different vendors and their products' price, performance, features and other necessary information, then he/she can make a decision (i.e. choosing a vendor for supplying the raw material) by being fully aware of the outcome of the decision. But managers rarely face a decision environment with certainty in real-life situations as future is always uncertain and unpredictable.

Decision Environment Under Risk

This is an intermediate situation where the outcome of an alternative cannot be predicted with certainty. However, the probability of a specified outcome can be measured. Based on their knowledge, experience, judgemental skills, together with adequate information, managers can predict the chances of a desired outcome. Under this method, managers measure quantitatively the chances that the expected outcome will occur and then appropriately make their decisions. For example, when the HR manager knows out of past experience and records that a specific number of employees would leave the organization in a normal year, he (or) she can then determine the probable vacancies and workforce requirements for that year.

Decision Environment Under Uncertainty

In an uncertain environment, managers can predict neither the outcomes nor the probability of outcomes of their decisions. When managers face restricted access to internal information or deal with uncontrollable external factors, then the decision environment becomes uncertain. In such an uncertain environment, managers may have to make decisions without knowing all possible alternatives and likely outcomes. When the marketing manager decides on discount offers for the product, the response of the competitors and customers to such offers may not be known to him. This may make the decision environment uncertain and outcomes unpredictable.

Usually there will be uncertainty regarding one or more elements of the problems in decision making in an environment of uncertainty. The decision maker generally uses mathematical models or theories to specify and deal with those uncertain elements. These models are usually classified into probabilistic and non-probabilistic models based on how uncertainty is treated.

Probabilistic vs. non-probabilistic models—In the case of probabilistic model, the decision maker is normally able to specify the probability of each of the uncertain events associated with the decision process. The probabilistic model is often used for decision making under risk.

In the case of non-probabilistic models, the decision maker is not able to specify the probability of an uncertain event. The non-probabilistic model deals with decision making under uncertainty. However, some experts argue that both probabilistic and non-probabilistic models have applications for decision environment under both risk and uncertainty.[8] We shall now see the important models or theories that have relevance for decision making.

Decision theory—It is basically a study of decision making under uncertainty using mathematical models. It is mainly a one-person game or a game of a single player against nature. This theory makes available a logical framework for managers for developing a system or rule that may lead to the selection of a best course of action under the prevailing environment. Decision theory can be normative or descriptive in nature. A normative decision theory is a theory on how decisions should normally be made. A descriptive theory is a theory on how decisions are taken in reality.

Game theory—It is essentially a two-person, zero-sum game. As per this theory, one person's success in making choices depends on the choices of others. The decision makers employ games of strategy (similar to playing chess) but not of chance (similar to tossing a coin). In a game of strategy, two or more persons face with competing choices of action. Each person may gain or lose from his or her choice of action depending upon what others choose to do or not to do. The ultimate outcome of the game will be decided by the strategies adopted by its participants. Game theory is indeed a zero-sum game because one person's gain is another person's loss.

Game theory can be divided into two main branches: cooperative game theory and non-cooperative game theory. These two theories differ on the basis of how they formalize interdependence among the players. In the case of cooperative game theory, players can coordinate their strategies by pooling their individual strategies through binding agreements and redistribute the joint strategies in a specific way. They finally share the pay-off (benefits) available out of such joint strategies. In contrast, a non-cooperative game is a detailed model of all the moves available to the players. In this, players mostly make independent and self-enforcing decisions. This theory deals largely with how intelligent individuals interact with one another in an effort to achieve their own goals.

Dynamic stochastic general equilibrium theory—This theory is basically a specialized branch of game theory. It is a well-designed framework that provides quantitative answers to questions of decision makers interested in knowing the business cycle effects. This theory aims at describing the behaviour of an economy as a whole by analysing the interaction of many microeconomic decisions. It helps decision makers in understanding the aggregate economic phenomena like economic growth, business cycles and the effects of monetary and fiscal policy.

Mechanism design theory—This theory provides a general framework to study any collective decision problems such as the allocation of work in a team, the allocation of funds in an organization, etc. Mechanism design theory is different from game theory. For instance, game theory takes the rules of the game as given, while the mechanism design theory asks about the consequences of different types of rules. Mechanism design theory has concrete applications in the real world. It can provide important justifications for government intervention in market operations and also for framing rules and regulations.

Since decisions cannot be made in vacuum, managers must carefully analyse the decision environment. They must look for facilitating factors as well as limiting factors for their decisions in the environment. Within the constraints, they should choose the best possible alternative by fully utilizing the information available within the environment.

Strategies for Decision Making

Depending on the nature of decision environment, managers may choose an appropriate strategy for making effective decisions. They can adopt any one of the following four strategies for decision making:

- **Optimizing**—This strategy expects managers to choose the best possible alternative to solve any organizational problem. They must develop as many alternatives as possible and choose the very best without any compromise.
- **Satisficing**—This term is a combination of two terms, namely; satisfactory and sufficient. As per this strategy, managers must decide on a solution that satisfies the minimum requirements to achieve a goal without waiting for the best solution to emerge. Managers may adopt this strategy when they have to purchase low-cost stationery items for their office.
- **Maximax**—This means "maximize the maximums." According to this strategy, managers evaluate the alternatives with the intention of choosing "the best of best options" and remain optimistic about favourable outcome. However, managers adopting this strategy usually prepare themselves for both high risk and high return.
- **Maximin**—This means "maximize the minimums." This approach involves making the best out of the worst possible conditions. In this strategy, managers identify the worst possible outcomes for their decisions and choose the best among these options to minimize the loss. They remain pessimistic about the outcomes of their decisions and play it safe by opting for a minimum but definitely positive outcome. They adopt this strategy when the risks are high and the consequences of failure are enormous. For instance, organizations may choose to launch a product that gives them a minimum

guaranteed profit as against another product that may earn better profit but has high chances of failure.

Adopting any of the above-mentioned strategies, managers may decide the suitable course of action to solve the organizational problems. However, the types of decision would differ depending on the nature and intensity of the problems. We shall first see the types of problems followed by the decision types.

Types of Organizational Problems

Managers come across a variety of problems and situations while doing their duties. Most of these situations demand a response from the managers in the form of decisions. Depending on the nature and intensity of the problems, managers may choose a specific course of action. Based on the nature, the problems requiring decisions can be classified into three. They are as follows:

- **Structured problems**—These problems are usually "easier to solve," recurring and straightforward in nature. Information and procedure required for solving such problems are usually available with the managers. For instance, nonpayment by a credit customer is a structured problem for the managers. This is because they would be well aware of the customer details and also the procedure to be adopted for collection of such outstanding debt.
- **Semi-structured problems**—These problems are partly structured and partly unstructured in nature. In other words, managers would certainly have some information and procedure for solving these problems, but not adequately. This can happen due to the non-availability of adequate and timely information. To some extent, managers would be forced to depend on subjective judgement for solving semi-structured problems. For instance, managers may have complete information about the internal factors affecting their pricing decision, but not enough information about the external factors.
- **Unstructured problems**—These are problems that are unusual, new, and difficult to be defined with clarity. Managers cannot have any readymade solution for these problems. They may find it difficult and time-consuming to collect all facts about the problem. They may also be required to develop an all new procedure for tackling such problems. These problems often call for the time, resources and attention of the higher levels of management. Any solution to such problems is normally developed on the basis of the expertise, experience, skills and intuitions of the managers. For instance, a successful implementation of a merger proposal by a company may create unstructured problems to the management.

Having discussed the kinds and nature of organizational problems, we shall now discuss the types of decisions required for solving those problems.

Programmed decisions—Managers make programmed decisions to solve routine, repetitive and well-structured problems. These decisions are usually taken in conformity with the established policies, procedures and rules of the organization. These routine decisions may also be made on the basis of the past experience and technical knowledge of the managers. In practice, every organization keeps certain standard procedures for tackling routine problems.[9] These decisions enable the managers to spend their precious time and resources on solving complex decisions.

Once the problems are clearly defined and the decision-making procedure is well-established, the lower-level managers can be permitted to handle these problems. This arrangement will enable the top-level managers to focus more on non-recurring, intense and complicated unstructured problems. For instance, the procedure and time limit set by the textile shops for permitting their customers to exchange their recently-bought clothes with a new piece is an instance of programmed decision for solving customer complaints

Non-programmed decisions—Managers formulate non-programmed decisions for tackling exceptional, complex and unusual problems. The need for non-programmed decisions may arise when adequate information or pre-determined procedure is not readily available with the managers for solving the problems. For instance, non-programmed decisions are usually made by managers to capitalize on the new opportunities or deal with the new threats found in the environment. Decisions by a bank management to install an ATM facility at a specific location can be a non-programmed decision.

The non-programmed decisions require systematic analysis of the problem, logical decision-making abilities and significant amount of time. These decisions are usually made at the higher levels of the management. Mergers and acquisitions (M&A), product or service pricing, make or-buy decisions, utilization of scare resources, acceptance or rejection of non-routine orders, employee wage agreements and legal issues are a few occasions for non-programmed decisions.

Decision-making Styles

A decision-making style can be defined as the habitual pattern that individuals adopt in decision making.[10] Managers may have their own way of performing decision-making tasks. The nature and intensity of the problems, characteristics of the decision-making environment and also the individual differences among managers can act as the major determinants of decision-making styles. Even though managers may have their own style of decision making, they can also follow any of the four following decision-making styles. They are: (i) rational style, (ii) avoidant style, (iii) dependent style and (iv) intuitive style.[11] We shall now see the basics of these styles.

- **Rational style**—The fundamental aim of this style is to keep off the emotional factors in decision making. In this style, managers make decisions only after systematically and logically analysing the problem and the possible solutions. They strive to get one best outcome of the whole decision exercise. The basic requirements of rational style decision making are as follows: (i) problems are clear and well-defined, (ii) goals are well-focused, and attainable, (iii) alternatives and their future consequences are knowable, (iv) preferences are not unstable, (v) absence of time and resources constraints and (vi) best return or pay-off from the chosen alternative is possible.[12] Lastly, this style emphasizes managers to ensure that their decisions serve the organizational interests in the best possible manner and not serve their own selfish interests.
- **Avoidant style**—In this style, managers make all possible efforts to delay the decisions. They adopt this style just to avoid any negative outcome of their decisions. In this style, managers begin the decision process to solve the problems only after adequate pressure is brought on them. This style is normally adopted by managers in situations where they:

    - Consider the problems to be less significant and waiting is a better option.
    - Feel the problem is just a symptom of much bigger issues and the root of the problem lies elsewhere.
    - Feel that not much is possible because they have little control over the situation.
    - Think the decisions may produce a lot of resentment and hurt feelings causing disquiet among the people.

The adoption of avoidant style by managers can demoralize the subordinates resulting in low productivity and performance.

- **Dependent style**—In this style, managers extensively consult others by seeking their advice and directions before making decisions. Managers normally take less responsibility for their decisions. This is because such decisions are made mostly on the basis of the opinions and advice of others. Generally, managers adopting this style prefer to remain passive and allow themselves to be heavily influenced by the expectations of others. Usually, the dependent style indicates clearly the lack of problem-solving confidence of the individuals.[13]

- **Intuitive style**—Intuitions may be defined as "affectively charged judgements that arise through rapid, non-conscious, and holistic associations."[14] In intuitive style, managers choose to make decisions based on their own instinct or gut feeling. As such, managers' emotional self-awareness forms the basis of choosing an alternative to solve the problem. Understandably, managers focus less on systematic information gathering and logical analysis of the problem. They depend more on their past experiences and learning, which make up their intuitions. However, managers accept responsibility for their decisions even if they have very little knowledge about the possible outcome of such decisions.

The above mentioned individual decision-making styles affect the managers' approach to the decision-making process. According to Kinicki,[15] there are two factors that typically influence the choice of managers of a specific style. They are: (i) value orientation and (ii) tolerance for ambiguity. Value orientation refers to a manager's focus and priorities in the decision-making process. Tolerance for ambiguity refers to the ability of the managers in coping with choice and uncertainty. Box 5.1 shows the decision-making style followed in a private company.

Rowe and Mason[16] have also classified the decision styles into four types, based on value orientation and tolerance for ambiguity. They are: directive, analytical, conceptual and behavioural. Table 5.1 shows the focus and level of tolerance of managers in adopting a specific style.

Box 5.1
Institutionalizing Decision Making—Reliance's Initiative

There are many ways or styles available for an organization to approach its decision-making function. Each style has its own strengths and weaknesses. Some decision styles may work better in some occasions while some other styles may produce better results in another occasion. In this regard, a company's policies, philosophy and practices may provide guidance and directions to the managers while determining their decision-making strategy. In this regard, Reliance industries Ltd (RIL) executive empowerment programme is a case in point.

Till sometime back, RIL was practising centralized, entrepreneurial way of decision making in which a group of four to five people participated in the decision-making process for all new projects. This group was directly reporting to the RIL chairman almost on a day-to-day basis. Now, RIL is creating a vastly decentralized, process-driven decision-making structure with the aim of institutionalizing its decision-making process. As a result of this transformation, key executives of the organization would have enough powers not only to shape strategies but also to implement them on an end-to-end basis. However, RIL will continue to maintain a core entrepreneurial way of decision making even while introducing a process-driven, institutionalized decision-making system. In the end, RIL believes that it will have its own distinct decision-making culture.[37]

Table 5.1 Focus and Characteristics of Decision Styles

Decision Style	Value Orientation—Task or People	Level of Tolerance for Ambiguity—High/Low	Managers' Characteristics
Directive style	Focus on task and technical aspects	Low	Logical, practical and systematic
Analytical style	Focus on task and technical aspects	High	Cautious, painstaking and open-minded
Conceptual style	Focus on people and social aspects	High	Creative, daring and rely on intuition
Behavioural style	Focus on people and social aspects	Low	Procrastinator, dependent and supportive

Studies on decision-making styles have however shown managers to be adopting multiple styles for analysing the problems and evaluating the alternatives.[17]

Managers can adopt different styles for different occasions of decision making. In any case, they must consider carefully the nature of the problem, people and process before deciding on the decision style.

Decision making often requires managers to take up logically-sequenced activities for thorough analysis of the problems, effective evaluation of alternatives and selection of the best possible choice. We shall now discuss the steps involved in any rational decision-making process.

Steps in the Rational Decision-making Process

Managers adopting a systematic decision-making process will surely have a high chance of success in their decisions. In this regard, managers can develop their own style, approach and process for decision making. They can also adopt the following seven-step decision-making process after making necessary changes to suit their specific requirements (Figure 5.1). These seven steps are: (i) recognizing the problem and its cause, (ii) determining the decision objectives and criteria, (iii) developing alternatives, (iv) evaluating the alternatives, (v) making decision, (vi) implementing the decision and (vii) feedback and follow-up. We shall now discuss these steps in detail.

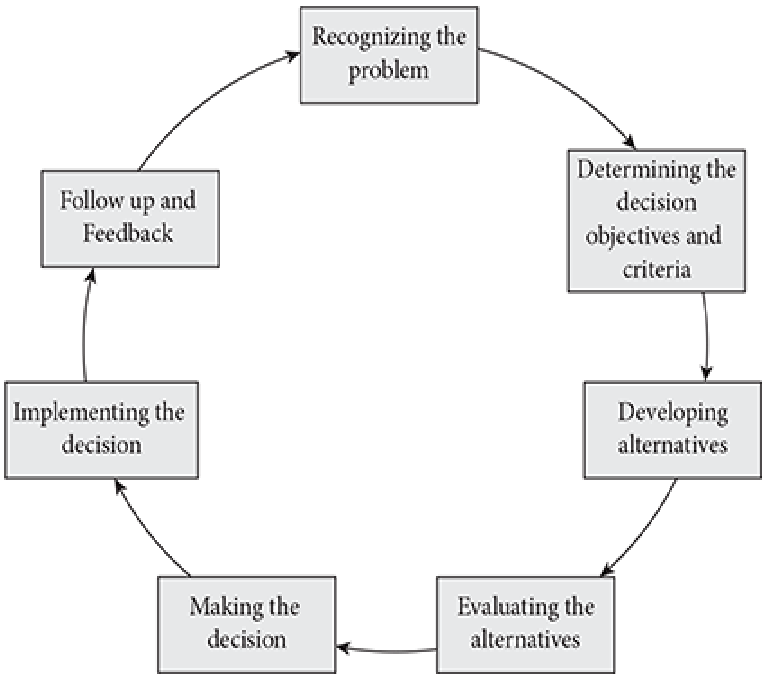

Figure 5.1
The Steps in the Decision-making Process

1. **Recognizing the problem and its cause:** A problem is actually a situation or an issue that prevents the realization of desired goals and purposes. The presence of a problem is essential for beginning a decision-making process. It may be a relatively small and routine problem with almost known outcome or a serious crisis with unimaginable consequences. To begin with, managers must recognize the symptoms, characteristics, likely impact and urgency of the problem at hand. In this regard, they can make use of their knowledge, skills and experience to accurately assess the impact and intensity of the problem. They must also trace and understand the root cause of the problem and distinguish it from symptoms. For example, a sudden increase in the incidents of employee indiscipline could just be a symptom of a wage problem. As such, the real problem might be the unsuccessful wage negotiations between the management and workers' union. In this case, it is impossible for managers to eliminate problems of indiscipline without first resolving the wage issues.
   Managers must develop a mechanism for identifying the problems arising in the organization. An effective problem-finding system can help managers in tracing the problems early and settling them quickly. In this regard, William Pounds[18] listed four kinds of situations that normally forewarn managers about a future problem. They are as follows:

   1. **Deviation from the past**—When a firm's performance in one year is different from the consistent performance of other years, it may signal the presence of a problem. For instance, a drastic fall in the sales revenue of a firm is a sure sign of an impending problem.
   2. **Failure to accomplish goals and plans**—Non-accomplishment of predetermined goals, budgets, targets and plans by a department or an organization can be a sign of a

problem. For instance, when there is a cost or time overrun in a project, it is an indication of a problem.

3. **External environmental changes**—Any change in the external environment may cause problems for the organization. For instance, introduction of a new product by the competitor or new regulation by the government can cause problems for managers in the near or distant future.
4. **People-centred**—People interacting with the managers are also possible sources of problem. For instance, customers may complain about the product or service quality. Similarly, workers can get upset with the work schedules or revised production goals.

Once the problem is effectively identified and defined, it would be relatively easy for managers to seek the right solution. However, in practice, it is certainly not easy to accurately define a problem.[19] This is because, the personal characteristics and individual decision-making style of managers often influence the way a problem is approached and solution is developed.[20]

2. **Determining the decision objectives and criteria:** The next essential step for managers is to identify the objectives to be fulfilled through the proposed decision. Each problem may present managers with either the opportunities for better performance or hurdles to achieving the predetermined goals. Each manager must ask the question, "What would I like to achieve in this situation?" What they decide now becomes their decision objectives. Determination of objectives for the decision-making process can ensure that the activities of the managers are purposeful and goal-oriented. These objectives can also help the managers in determining what actions and undesirable consequences are to be avoided while making decisions. While choosing the decision objectives, managers must ensure that the objectives are essential, controllable, complete, measurable, operational, decomposable (capable of being partitioned), and understandable.[21]

   Besides determining the decision objectives, managers should also identify the decision criteria for comparing and evaluating the alternative solutions. The nature of problem and organizational policies usually determines these criteria. These criteria act as specific measures and help managers in determining the best solution for their problem. For instance, age, communication skills, inter-personal and socialization skills, and physical endurance are usually the relevant decision criteria for marketing managers while recruiting sales force.

   Managers usually assign different weights to each criterion in multi-decision criteria. Understandably, the most important criterion gets the highest weight. For instance, a manager may assign top weight to communication skills while recruiting sales force.

3. **Developing alternatives:** Having framed the decision objectives and criteria, managers must now build a list of possible alternatives for solving the problem. At this stage, the aim of managers is to develop as many alternatives as possible without worrying about their worth and suitability. Managers should avoid any premature evaluation of the alternatives at this stage as it could result in the rejection of even some good alternatives.

   In a competitive environment, alternatives must be developed effectively and rapidly. Besides individually generating alternatives, managers can also involve others by employing group decision-making techniques. Some of the important techniques available to managers for developing alternative are:[22]

1. **Brainstorming**—This is a face-to-face interactive group technique available for generating creative ideas. The objective here is to generate as many ideas as possible, group members are therefore encouraged to build a large number of alternatives based on everyone's ideas. These ideas are neither criticized nor evaluated at this stage.
2. **Incubation**—In this technique, managers allow their subconscious mind to consider the problem deeply and incubate (develop) ideas. At the same time, their conscious mind would have taken a break from the problem and focusing on some other work. Often, a deep insight into a problem may create a spark or sudden illumination in the mind, which may enable managers to solve the problem.[23]
3. **Visualization/Imaging**—Visualization may be defined as "the process of taking abstract ideas and data and translating them into easily understood and interpreted images to enhance decision-making process."[24] In this technique, managers develop a mental picture of the whole problem and also the precise parts of that problem. Then they visualize and experience different alternatives for solving the problem. In this regard, they can also build in their mind the likely post-decision scenarios under each of these alternatives.
4. **Outcome psychodrama**—The term psychodrama may be defined as "the science which explores the truth by dramatic methods."[25] This is a flexible and creative approach to problem solving based on a role-playing technique. In this method, a problem is presented to the members to dramatize or act out. In a spontaneous situation, members can offer creative and natural ideas without thinking about self. As part of psychodrama, decision-makers may also adopt role reversal in which the members change role with someone else. The purpose here is to make the members more expressive in their role and ideas.
5. **Random word technique**—In this technique, the decision maker is presented with a word randomly chosen from the dictionary along with the problem. The efforts to correlate the problem with a random word may prompt the decision maker to step into unconventional route and to conceive new ideas.

It is important for managers to identify all possible alternatives to ensure that the best alternatives are not omitted. The availability of a large number of options would also enable managers to apply an effective evaluation and filtering process. Thus, the success of this stage depends on the ability of the managers to generate non-standard and creative alternatives.

4. **Evaluating the alternatives:** After identifying all possible alternatives, managers should begin evaluating each one of them in the context of the decision objectives and criteria. In this regard, they should compare these alternatives to determine their relative worth and relevance to the problem situation. While evaluating the alternatives, managers are usually guided by their experience, intuition and personality factors. They often opt for alternatives that have the least amount of risk and uncertainty, and show reasonable prospects for success.

While evaluating the alternatives, managers usually look to: (i) solving (ii) resolving or (iii) dissolving the problem.[26] In solving the problem, managers choose the best possible solution after careful and thorough investigation. While resolving the problem, managers' aim is to choose an alternative that just satisfies the minimum requirements and somehow solves the problem. This satisficing approach may not produce the best possible solution to a problem. Finally, a problem is dissolved when managers change the situation that creates the problem and thereby make the decision making superfluous. For instance, managers may fully automate manufacturing facilities just to dissolve labour-related problems.

5. **Making the decision:** A decision is a conscious choice made from available alternatives. After carefully evaluating various alternatives, managers decide on a specific course of action that ensures the best possible outcome. This is obviously the most crucial step for managers as any wrong choice may result in time and resources wastage. Usually, managers choose a single but appropriate alternative for solving the simple and direct problems. In contrast, they may combine several alternatives to form the most effective solution for solving a complex problem. In any case, they should spend sufficient time at this stage to make the decisions fail-proof. Selecting the best alternative becomes relatively less difficult if the managers had worked on the previous steps effectively.[27] After identifying the best alternative, managers should get ready with the resources required for its implementation. They should also finalize the timing and mode of its execution.
6. **Implementing the decision:** At this stage, the decision made is brought into effect by the managers. Managers should ensure that the decision is properly communicated to all the participants in the implementation process. The participants must be explained the reasons for and consequences of a specific decision to get their cooperation. They should also be well-informed of the manner in which the decision will be implemented and the activities to be performed by them.

   Even a good decision is bound to fail if the participants in the process are unwilling or are unable to carry it out. To achieve success in implementation, managers must ensure that the: (i) decision is clear and consistent, (ii) organizational structure and environment are conducive, (iii) participants are skilful and committed and (iv) time and resources are adequate. In this regard, managers can use techniques such as force field analysis to identify and assess the favourable and unfavourable factors in decision implementation. Based on the analysis, managers can initiate efforts to strengthen the forces favouring the decision and minimize resistance, if any.
7. **Follow-up and feedback:** In this last stage, managers must continuously monitor all activities to ensure that they contribute to decision success. Follow-up helps managers in effectively controlling the implementation process. It also makes possible any mid-way correction and improvements in the process before a decision goes totally wrong or irredeemable.

Decision making is a continuous and challenging task of managers. Hence it is essential to evaluate the outcome of each decision. The result of such evaluation is critical to determining the efficiency of the entire decision-making process. It also helps managers in determining the reasons for the success or failure of decision exercises and in fine-tuning the decision process in future. However, the success of any decision in a real environment is certainly influenced by a variety of factors. It is essential for managers to have a good knowledge of these factors.

Factors Influencing the Decision-making Process

Decisions cannot be made in vacuum and as such several factors influence such decisions and their environment. It is therefore necessary for managers to identify those factors and understand their role and relevance to the decision-making process. These factors are usually classified into internal and external factors. Let us now discuss these factors briefly (see Figure 5.2).

External Factors

Factors external to the decision makers but influence their decision processes are called external factors. They are as follows:

Nature of environment—Environmental factors refer to social, cultural, political, legal, technological and economic environments within which organizations operate. These factors remain outside the organization but influence the decision-making process of managers. Any changes in these environments may produce opportunities or threats for the organization and thereby a problem situation. Managers must constantly watch these environments to detect the problems early and solve them quickly.

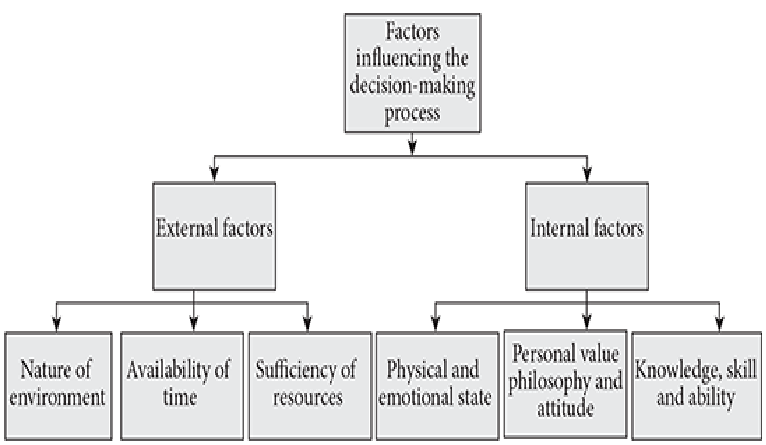

Figure 5.2
Factors Influencing the Decision-making Process

Availability of time—Time is a crucial factor in making and implementing decisions. It is necessary for managers to consider the time available and time required for making decisions. When time is not a constraint, managers can allow sufficient time for every stage of the decision process. If the decision cannot wait any delay, they should rush through the whole decision process. Clearly, time constraints can affect managers' ability to gather information required for developing alternatives for effective decision making.

Sufficiency of resources—Resource availability can also affect the managerial decision-making process. The level of difficulty in obtaining both human and physical resources can determine the success of the decision-making process. Once the decision is made, it is necessary for managers to mobilize the necessary resources to achieve the desired decision outcome.

Internal Factors

Internal factors are the individual strengths and weaknesses of the decision makers. These internal factors as follows:

Physical and emotional state—Usually, the **"**mood of the decision makers" can also have an impact on their choices. The clarity level of decision makers is usually characterized by a balance of their physical, mental and emotional systems.[28] The ultimate selection of a decision alternative may be influenced by psychological factors such as feelings of regret, disappointments, joy, etc.

Personal value, philosophy and attitude—Value systems of managers are shaped by the culture in which they practice and experience. These values in turn guide their attitude, philosophy and behaviour. Managers' attitude towards risk, tolerance towards ambiguity, their own value system and ethical practices can influence their decision choices. When organizational values are strictly followed in all managerial decisions, such decisions are known as value-based decisions. Box 5.2 discusses the values applied by a leading Indian biopharmaceutical company in the decision-making process.

Box 5.2
Biocon Values for Decision Making

Biocon—a leading biopharmaceutical company in India—has established a few core values that guide the decisions of its managers across the organization. These core values are as follows: (i) organizational members should remain open and honest in all their decision making and external reporting and also in their relations with stakeholders, (ii) they must be entrepreneurial and innovative, (iii) protection of and respect for intellectual capital, which also include respect for the intellectual capital of others, (iv) enhancement of human talents, including team efforts and (v) management's well-defined responsibility to the company, staff, customers, suppliers and the community in general.[38]

Knowledge, skill and ability (KSA)—The extent of the presence of decision-making and problem-solving skills in managers can make a difference to their decision-making ability. Managers' mastery over other relevant skills such as interpersonal skills, communication skills and goal-setting skills can also influence their decision-making effectiveness.

Challenges to Effective Decision Making

Every manager likes to make good decisions, but their efforts are hindered by the presence of numerous challenges in the decision process. These challenges often make decision making difficult and at times an unproductive exercise. Hence, managers must be cautious of these challenges. Let us now discuss these challenges in detail.

Bounded Rationality

Herbert Simon has advocated a realistic, but a slightly pessimistic theory, known as the theory of bounded rationality. This theory suggests that decision makers in practice have only limited time, resources and intelligence. As such, the information gathered by them remains inadequate and incomplete due to these limiting factors. Consequently, they limit their search for alternatives and also avoid a thorough evaluation of them. These practical difficulties often make them compromise their search for best solution and settle for the first satisfactory decision known as satisficing.

Fear of Failure

Managers who have a pessimistic mindset and are not confident about the decision outcome often resist decision making. Such managers show reluctance in doing new things or trying challenging assignments. They may have developed the fear of failure from their own or from others' past experiences. Effective managers, in contrast, make quick and informed decisions without any undue anxiety about the outcome of their decision.

Misaligned Priorities

Decision making involves proper alignment of people, programmes, processes and systems for effective decisions. However, in reality, the success of decision making is often affected by the misalignment of these priorities by managers.

Information Overload

Information overload can have an adverse effect on decision process and decision quality. Advancements in information technology and the internet have made information overload a real problem for managers. The presence of a large amount of information may force busy managers to avoid a serious search of information while developing decision alternatives. According to Jacoby and others, when there is an information overload, the decision quality first increases, and later significantly decreases.[29] However, information overload can increase decision quality if the managers are not under any time pressure.

Absence of Creativity

In a fast-paced environment, managers often make stereotypical decisions and avoid, if possible, risky and unconventional approaches. Nonflexible organizational policies and practices also limit their freedom to try out innovation and out-of-box thinking. Understandably, this lack of imagination and absence of creativity affect the manager's ability to make successful decisions.

Group Hindrances

In group decisions, everyone's responsibility for the consequences of decisions actually ends up as no one's responsibility. This absence of direct and individual responsibility may also embolden the members to make risky and even reckless decisions. Group members may hesitate to challenge bad ideas just to avoid conflicts and preserve unity.

Psychological Bias

Bias in decision making may mean an unfair assessment of alternatives by managers as a result of their systematic favouritism. Managerial decisions are generally influenced by a number of unconscious common biases. These biases eventually affect the objectivity and rationality of the decision-making process. Some of these biases are as follows:

1. **Framing bias**—This bias occurs when managers are influenced by the way problems are presented to them. They may make different decisions for similar problems depending upon the manner in which the problem is presented. For instance, managers can be more influenced by positive projection of the problems than by negative projection of the same. While describing the viability of the project, a positive description of 40 per cent chance of success may appear to be more appealing to the decision maker than a negative description of 60 per cent chance of failure.
2. **Availability bias**—This bias happens when managers are inclined to overemphasize more recent information and underestimate the relevance of the events of distant past. This bias may distort managers' opinion on various alternatives and affect the objectivity of the decision-making exercise. For instance, in performance evaluation, managers may provide undue importance to the recent performances of the employees in their decision.
3. **Discount-the-feature bias**—This bias refers to managers' tendency to attach undue importance to the short-term cost and benefits of a decision. This bias may result in the negligence of long-term perspectives of the decisions. For instance, managers' decision to postpone the overhauling of machinery may avoid any immediate work schedule disturbances. However, it may cause machinery breakdown and substantial production loss at a later stage.

4. **Overconfidence bias**—This bias arises when managers overestimate their predictive and decision-making abilities. This bias is more pronounced at times when managers work in unfamiliar areas with little or no previous knowledge. This bias may lead to managers making riskier decisions when the outcome is hardly predictable.
5. **Anchoring bias**—This bias occurs when managers are unduly influenced by their first impression of something in decision making. As a result, they may be tempted to overlook or underestimate the subsequent developments. For instance, managers may be unduly influenced by the initial response of the candidates to their questions at employee selection interviews.
6. **Decision escalation bias**—This is also called a sunk cost bias. A poor initial decision or misjudgement usually makes managers nervous about the decision failure. In such situations, managers may attempt to over-allocate resources to save the decision even if it has a very high failure prospect. This may happen when the causes of decision failure are serious and managers are unprepared for it.
7. **Hindsight bias**—The essence of this bias is the thought, "I knew that was going to happen." In this bias, managers usually overstate their ability to predict the outcome of an event or decision even after the actual outcome is known. They have the tendency to view future occurrences as more predictable than they really are.
8. **Self-serving bias**—This bias arises due to the human desire to be always successful. People have the habit of identifying themselves with success while blaming others for failure. Similarly, managers have a tendency to take credit for doing well and evade responsibility for any decision failure.
9. **Representation bias**—When managers evaluate the alternatives, they may be willing to recall a past incident or experience that appears similar to the present problem situation. In this bias, the present decision of managers would be guided more by their past experience than by the reality of the present decision-making situation.

Decision Tree

A decision tree, in simple terms, is a graphical representation of different alternatives for a sequence of events of a multistage decision problem. While evaluating the alternatives, managers can adopt the decision tree technique for effective decision-making. Decision tree is an ideal analytical tool to decision making, especially when the decisions are risky or costly. A decision tree can help managers choose between two or more alternative strategies. It enables the managers to develop a visual image of their options and also illustrate the possible outcome of each option, if adopted. This method employs a graphic called decision tree with branches representing competing alternative strategies. This schematic diagram helps managers to draw up the complex sequences of decisions and strategy alternatives.

The decision tree normally consists of small circles (called nodes) and connecting branches. These nodes represent decision points and the connecting branches stand for each possible alternative related to the node to which it is connected. After graphing the decision points and possible alternatives, managers should estimate the expected value of each decision based on the probability. Once the benefits, expected values and probability for each decision alternatives are ascertained, managers can analyse the decision tree and choose the best possible alternative as decision.

The decision tree depicted in Figure 5.3 shows the problems and alternative strategies of a HR manager engaged in wage negotiation with the trade union that demands a 15 per cent pay hike. To start with, the HR manager has two competing alternative strategies of either accepting or rejecting the demand of the union. The acceptance of demand means 3 per cent additional expenditure for the firm and the rejection of demand may lead to two possibilities. The union may or may not resort to strike (figures in parenthesis indicate the probability). If the union does not resort to strike, the firm will incur an additional recurring expenditure of 2 per cent only. In the eventuality of the union giving a strike call, there are two other possibilities. The strike may or may not succeed. If the strike succeeds, the firm may suffer a production loss due to strike, besides incurring a 3 per cent additional recurring expenditure. In the event of strike dissipating, the firm may suffer a production loss for the strike period but an additional recurring expenditure of just 2 per cent. Such graphical depiction of the strategies may help the manager to better understand the expected cost, benefit and probability of occurrence of each possibility, while evaluating them and choosing the best course of action.

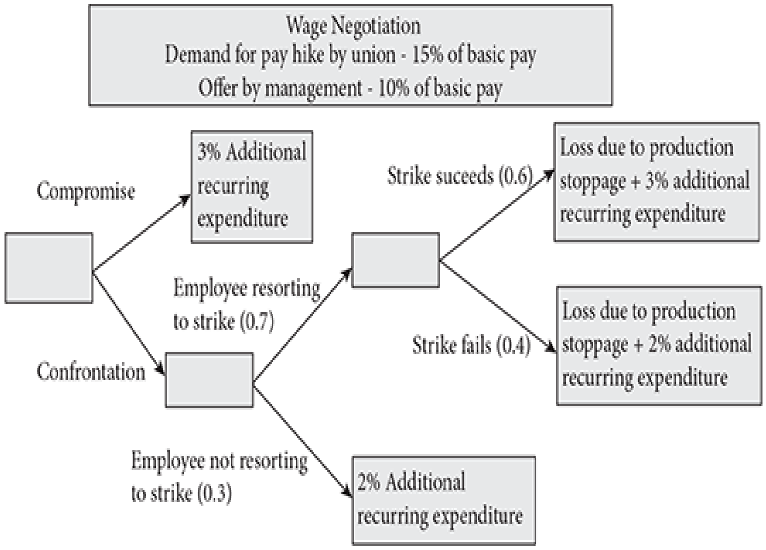

Figure 5.3
A Decision Tree

Group Decision Making—An Overview

A group is a collection of two or more individuals who are connected by social relations and common objectives. Group decision making may be defined as "the process of arriving at a judgement based on the feedback of multiple individuals."[30] Managers often prefer group decisions to individual decisions for solving non-routine and weighty problems. For instance, group decision is normally suitable for problems that are complex, novel or important. This is because groups are generally better at selection, evaluation and estimation of alternatives and in problem solving.[31] While consulting others, managers can also gain different viewpoints of the same problem. These viewpoints can in turn facilitate the development of many alternatives and also the selection of the best choice. Similarly, group decision making is more effective in detecting judgemental errors and faulty interferences about the problems and also in generating more correct solutions.[32]

In most group decision making, two interrelated elements strongly determine the efficiency of the process. They are as follows:

- **Social elements**—It deals with the interpersonal dimensions of a group. The effectiveness of social elements in a group is known through group cohesiveness and conflict management.

- **Technical elements**—This element relates to the functional aspects of the group. The effectiveness of technical elements is decided by the kind of logic, structure and model adopted by the group in the decision-making process.

Managers can use any group decision-making process that they find appropriate for the decision situation. In general, there are four major types of group decision processes available.[33] They are as follows:

- **Consultative decision making**—Managers make the decision after discussing the problems and possible solutions with the group members.
- **Democratic decision making**—Managers, together with members, discuss the problem and jointly make the decision. Usually, the opinion of the majority members becomes the decision of the group.
- **Consensus decision making**—Managers and group members jointly discuss the problem and the probable solution. Finally, a decision is reached only after all the members agree on a specific course of action.
- **Delegative decision making**—Managers delegate the decision making to the group or to a sub-group. Managers normally provide the guidelines for problem analysis and decision making.

Decision making is of utmost importance for effective management of an organization. Making the right decision must become the habit of managers. To be successful, they must continuously enhance their decision-making skill and remain alert to environmental changes.

Decision Support System

A decision support system (DSS) is an interactive software-based model for making business and organizational decisions. The DSS may be defined as "interactive computer based systems that help people use computer communications, data, documents, knowledge, and models to solve problems and make decisions."[34] The DSS is useful to higher-level managers for simulating the problem situations as a part of the decision-making process. The DSS can be effectively used for solving unstructured, semi-structured and structured problems. However, the DSS can only support decision makers and not replace them.

The DSS has four sub-systems and they work together to provide decision- making support. They are: (i) language system, (ii) presentation system, (iii) knowledge system and (iv) problem-processing system. Based on the functions performed, the DSS can be classified into five models. They are as follows:

1. **Communication-driven DSS**—The focus of this model is to facilitate faster communication and effective information sharing among the members of a group. This model is helpful for developing a series of decision options to establish a solution and for promoting consensus form of decision making. The tools used for this type of DSS model are e-mails, bulletin board system and electronic meeting system, including web conferencing. This group-based model can work both in office and web environments.
2. **Data-driven DSS**—The focus of this model is on the manipulation of collected and structured data for problem analysis, alternatives generation and decision-making. It facilitates faster and efficient access to a large data. In this regard, internal as well as external data are gathered and arranged on a sequential basis (called time series) to aid in decision making. Daily sales records, annual budget information and periodic inventory levels are a few examples of this model
3. **Document-driven DSS**—The emphasis of this model is on the effective management and manipulation of unstructured information. It supports decision-makers in converting unsorted documents into useful business data. These documents may be available in the form of text documents, spreadsheets and other database records. A classic example of this model is the internet search engines, which can sort huge volume of unstructured internet data and present them as useful information to decision makers.
4. **Knowledge-driven DSS**—The focus of this model is on making timely suggestions to the decision makers. Here, knowledge refers to the business rules, regulations and procedures stored in computers and used to make decisions. Knowledge looks for a certain pattern in the large volume of data and alerts decision makers when the expected pattern is detected. The system generating timely recommendations to stock market investors in the form of "buy," "sell," "stop loss," are examples of knowledge-driven DSS.
5. **Model-driven DSS**—This model focuses on the development and manipulation of quantitative models to help decision makers in effective decision making. Decision makers can make use of statistical, financial and simulation models for the decision-making process. This model uses the data and parameters provided by a decision maker to generate alternatives, evaluate and interpret the alternatives, and choose suitable alternatives.

There is a growing dependence on the DSS by managers due to its indispensable role in the present decision environment. It helps managers in several ways. For instance, the DSS helps managers to handle even complex situations with ease. This is possible, as the DSS makes available necessary quantitative models, adequate data storage, faster communication and easier access to large volumes of data. Consequently, it can help managers in enhancing decision quality and limiting time and cost requirements in decision making.

Summary

1. Managerial decision making is the process of identifying the best solution to an organizational problem after due consideration of all possible solutions.
2. Some characteristics of managerial decisions are: future-oriented, choice-based, inbuilt uncertainty and risk, goal fulfilment, intangibility and analytical approach.
3. Kinds of decision-making environments are: (i) decision environment under certainty, (ii) decision environment under risk and (iii) decision environment under uncertainty. Strategies for decision making under different environments are: optimizing, satisficing, maximax and maximin.
4. Organizational problems can be classified into: (i) structured problems, (ii) semi-structured problems and (iii) unstructured problems. Different types of decisions available for solving organizational problems are (i) programmed decisions and (ii) non-programmed decisions.
5. A decision-making style can be defined as a habitual pattern that individuals adopt in decision making. Managers can adopt: (i) rational style, (ii) avoidant style, (iii) dependent style and/ or (iv) intuitive style for decision making.
6. Steps in rational decision-making process are: (i) recognizing the problem and its cause, (ii) determining the decision objectives and criteria, (iii) developing alternatives, (iv) evaluating the alternatives, (v) making decision, (vi) implementing the decision and (vii) enabling feedback and follow-up.
7. Factors influencing the decision-making process can be classified into external and internal factors. External factors are the nature of environment, availability of time and sufficiency of resources. Internal factors include physical and emotional states, personal value, philosophy and attitude, knowledge, skill and ability (KSA).
8. Challenges to effective decision making are bounded rationality, fear of failure, misaligned priorities, information overload, absence of creativity, group hindrances and psychological bias.
9. Psychological bias includes framing bias, availability bias, discount-the-feature bias, overconfidence bias, anchoring bias, decision escalation bias, hindsight bias, self-serving bias and representation bias.
10. Group decision making may be defined as the process of arriving at a judgement based on the feedback of multiple individuals.
11. The decision support system may be defined as an interactive computer-based system that helps people use computer communications, data, documents, knowledge and models to solve problems and make decisions.

Review Questions

Short-answer questions

1. What do you mean by the term decision making?
2. State the characteristics of managerial decision making.
3. Explain the different decision-making environments with examples.
4. Write short notes on: (a) optimizing and (b) satisficing.
5. Give brief accounts of: (a) maximax and (b) maximin.

6. What do you mean by group decision making?
7. What are the four important types of group decision-making processes?
8. What do you mean by decision support system (DSS)?

Essay-type questions

1. Examine the different types of organizational problems faced by managers. State the types of decisions required for solving them.
2. Critically evaluate the different types of decision-making styles adopted by managers in organizations.
3. Describe in detail the steps in the decision-making process with relevant examples.
4. State vividly the important group decision-making techniques available to managers.
5. Enumerate the factors influencing the decision-making process in organizations.
6. Trace the challenges to effective decision making in organizations.
7. Identify the common biases that normally affect managerial decisions.
8. Decision making is at the heart of planning. Discuss.
9. Decision making is an inevitable function of management. In light of this statement, elucidate the importance of decision making.
10. Distinguish between programmed decision-making and non-programmed decision making.
11. Discuss in detail the five models of the decision support system.
12. Explain the characteristics of each of the four decision styles advocated by Rowe and Mason.

Case Study

Can HR be a Competitive Advantage?

Rakish Iron and Steel Company is a significant player in the iron and steel industry. The company has a workforce of 18,000. With a 21 per cent market share at the national level, it occupies the fourth position in the industry. The company set for itself an ambitious target of securing the third position in three years, the second position in seven years, and industry leadership in ten years. The management of Rakish announced a major change in the business strategy of the company that would lead to the transformation of business operations. Incidentally, it prepared a blueprint for the company and chose product differentiation as its primary strategy for the future.

It identified a few segments in the market like the low-value steel market where the competition was negligible.

It decided to expand its product line with a focus on the consumers of these low-value products.

Pursuing this strategy the management announced a slew of measures aimed at enhancing the width of the product line by adding a few more varieties to it. It made a huge investment commitment in the infrastructure for producing low-value steel. Within a remarkable short span of time it introduces new products to cater to the market demand for low-value products. The market responded favourably to its new product and turnover and profit rose appreciably. However, the competing companies understood the game plan of Rakish quickly and reacted by expanding their product line too. The advantage enjoyed by Rakish turned out to be a short-lived one and the major players once again began to dominate the market.

Once the product differentiation efforts failed the man agreement of Rakish changed its strategy and adopted a low-cost strategy. This required the organization to be aggressive in sales promotion measures and diligent in cost reduction in fields like marketing, advertising, distribution and services. The cost reduction measures could not help the company for two reasons.

One, the cost of marketing did not have a significant influence on the price tag of the product. And two, the cost reduction efforts had a negative fall-out on sales promotion and also on the actual sales performance. Eventually, the company was forced to abandon its low-cost strategy endeavours.

When the company was almost clueless about its future strategies to accomplish the performance goals, Mr. Rajesh Sharma joined the board as the HR Director of the company. Learning about the ill-fated strategy initiatives of the company he made a proposal to develop the work-force of the company as a competitive advantage in the market. The board of directors greeted the proposal with suspicion and contempt.

They could not believe that the employees could be developed into a formidable force for the organization through proper HR measures, and that in due course this would lead to cost reduction and quality enhancement. However, having no worthwhile alternative schemes, they set aside their reservations and approved the HR director's proposal. Simultaneously, the directors allowed a huge budgetary support for drastically improving the training infrastructure and the compensation packages. The HR director's proposal began to take shape and the management kept its fingers crossed.

Question:

1. What could have been the reason for the failure of the earlier strategies of Rakish?
2. How do you foresee the future of Mr. Rajesh Sharma's proposal in the light of the competition faced by the company?
3. What would your proposal have been if you had been the HR Director of the company?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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CHAPTER 6

Forecasting

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning and importance of forecasting
2. Explain the types of forecasting
3. Elucidate the principles of forecasting
4. Enumerate the key elements of forecasting
5. Elucidate the steps in the forecasting process
6. Understand the techniques of forecasting
7. List the challenges to forecasting
8. State the guidelines for effective forecasting

India's Inspirational Managers

Azim Premji is the chairman of Wipro, a leading global IT company with presence in over 50 countries. Due to his astute foresightedness and bold leadership, the then USD 1.5 million company manufacturing hydrogenated cooking fats evolved into a US$8.36 billion (2018) company by diversifying and integrating into its conglomerate services—medical systems, technology products and consumer goods. When IBM had to quit India due to policy differences with the Indian government in the late 1970s, Azim Premji foresaw a perfect opportunity for Wipro in IT and IT-allied fields. He predicted that a right blend of business skills, technical strength and post-sales services would be a winning formula for Wipro in this sector. Azim's prediction became true as Wipro emerged as a major player in the IT business, which now accounts for over 90 per cent of Wipro's profits. Azim has successfully developed the "Wipro Way"—a process which directly impacts customer benefits by improving time-to-market, enhancing predictability and reliability, and cutting costs. As the head of the Corporate Executive Council, Wipro Limited, Azim Premji has also been active in deliberating the long-term vision and goals of the corporation.

Introduction

Forecasting is the process of predicting what will occur in the future. In simple terms, forecast is an estimate of future events. The purpose of forecasting in organizations is to make the best use of the presently available information to guide the future activities of the organization. Forecasts have direct as well as indirect impact on almost all activities of organizations. For instance, forecasting is an important and unavoidable task of organizational decision-making and planning activities. The primary aim of forecasting is to improve the accuracy and quality of decisions. Good forecasts can lead to better planning and decision making, lower costs, enhanced customer satisfaction and better competitive advantage in the market.[1] In contrast, poor forecasting can lead to disastrous decisions.

Though forecasting is an uncertain process, it is vital for survival in today's dynamic business environment. Managers try to forecast with as much accuracy as possible, but it is becoming increasingly difficult in today's fast changing business world. If business forecasts are to become reliable sources of decision making, organizations must provide due important to accurate forecasting. To enhance the accuracy of forecasting, organizations are now making large new investments in technology, process and people to solve business problems.[2]

Business forecasting is used to predict and project future results for arriving at critical business decisions. Top decision areas in organizations where forecasting are considered as important are production planning, budgeting and strategic planning.[3] Besides, forecasting is also useful for contingency planning, new product decisions, operations planning and control, investment decisions, capacity planning, employee hiring and crisis management. Good forecasts bring benefits to organizations in the form of better customer services, less inventory, less investment in excess capacities and fewer changeovers in policies and practices.[4] However, forecasting is often described as a difficult, unrewarding and sometimes, useless exercise. This is because forecasters are mostly noticed when they do something wrong and rarely recognized for any right forecasts.

Definitions of Forecasting

The definitions on forecasting primarily focus on the prediction of future. We shall now look at a few definitions on forecasting.

"Forecasting relates to what will happen if the firm tries to implement a given strategy in a given possible environment." —Armstrong.[5]

"Forecasting is the process of making statements about the value of variables whose values have not yet been realized." —Helisse Levine.[6]

"Forecasting is a process that has as its objective the prediction of a future event." —Benito E. Flores.[7]

"Forecasting is a systematic attempt to probe the future by inference from known facts." —Louis A. Allen.[8]

We may define forecasting as a systematic effort at predicting the future events by inferring the relevant facts on hand.

Importance of Business Forecasting

Forecasting is fundamental to any planning process. It has both short-term utility and long-term utility to business organizations. In today's business world, forecasting is becoming increasingly important as organizations focus more on customer satisfaction and controlling the cost of goods and services. Accountants usually forecast the cost and revenues while HR managers predict the changes in workforce. Similarly, financial managers forecast the cash flows and inventory requirements. Production managers use forecasts to determine the raw material requirements and also the preferred quantity of finished goods in stock. We shall now discuss the importance of business forecasting from different perspectives.[9]

- **Better anticipation**—Repeatedly, managers have to anticipate and project the future results based on the past and present organizational performances for making decisions. Forecasting enables managers to make informed decisions through better anticipation and superior prediction of uncertain events with the help of relevant information gathered and analysed. For instance, if organizations predict an economic recession, they can cut back on their inventories, production quotas, and hiring. In contrast, if an economic boom is predicted for the future, organizations can plan additional investments to get the maximum benefit from it.
- **Develops situational awareness**—Forecasting enables managers to have a better understanding of the organization's environment. They can take more effective and accurate decisions by improving on their situational awareness and knowledge.
- **Better responsiveness**—Better and faster responsiveness to changes in external organizational environment is possible through forecasting. This responsiveness allows organizations to respond faster and smarter to the developments in a dynamic environment. Forecasting also enables organizations to see the changes that have occurred, both planned and unplanned events, and respond to these changes quickly.
- **Improved coordination**—Planning and goal-setting require the inclusion and coordination of the activities of various segments within a business environment. Forecasting demonstrates how these activities are actually interconnected. Forecasting normally results in better co-ordination of inter-departmental activities and a greater chance of attaining the overall organizational objectives.
- **Better customer services**—Forecasting enables organizations to feel the pulse of their customers and respond to their requirements effectively. By accurately forecasting the customer requirements, managers can provide better customer service with fewer resources and fewer complaints. For instance, when product demands are not forecast, organizations cannot expect the product to be available in the market. Forecasting thus becomes crucial to ensuring satisfactory, or even excellent, customer service.
- **Better utilization of resources**—One of the important tasks of forecasting is the better utilization of resources and the estimation of benefits out of them.[16] Accurate estimation of resource (physical as well as human) requirements through effective forecasting helps organizations to avoid idle resources and overcapitalization. Forecasting thus ensures a more productive use of organizational resources by avoiding wastage.
- **Lower costs**—Forecasting can help organizations to achieve significant cost saving in their operations. For instance, inventory cost can be reduced through downsized warehousing by correctly forecasting inventory requirements. In fact, inventory is the largest balance sheet asset of many companies. Similarly, lower administrative cost can be achieved by forecasting manpower requirements. Generally, more profit can be achieved with less human effort, less equipment, less time and less space, if forecasting is effective.
- **Fewer future shocks**—Forecasting enables managers to plan for future changes and thus support company strategy. The fast pace of changes in the environment creates future shocks for those unable to adapt to such change. Forecasting enables organizations to predict the future changes and prepare themselves for such changes. Forecasting thus saves organizations from the negative effects of future shocks.
- **Standards for comparison**—Forecast is an estimate of future demand. It creates a baseline against which actual data can be measured. The forecast (anticipated) and the actuals (achieved) are

compared to identify the gaps in results. Forecasting is again used to reduce the gap in the next period or cycle. Box 6.1 shows the forecasting initiatives of Infosys.

Types of Forecasting

Forecasting serves different purposes and performs different tasks in organizations. Corporate planners use forecasting to plan new products or new facilities. Marketing managers utilize forecasting to decide sales strategies and pricing strategies. Finance managers employ forecasting to plan borrowings and repayment schedules. Production managers use forecasting to plan inventory levels, production schedules, plant capacity, resource allocation, etc. On the basis of the basic characteristics such as the level of details required, the pattern of data required and forecast horizon, forecasting can be classified as short-term forecasting and long-term forecasting.

Depending on the length of forecasting time, organizations can choose between short- and long-term forecasts. Forecast objectives and the nature of variables to be forecast can also influence the managers' decisions regarding the type and duration of forecasting. Generally forecasting becomes less accurate when the period of forecasting becomes longer. We shall now briefly discuss these two types of forecasting.

- **Short-term forecasting**—This is also called operational horizon forecasting. This forecasting may cover a period of a few days, weeks or months. Normally, it covers a period of less than 18 months. As such, weekly, monthly or quarterly forecasts are considered as short-term forecasts. Due to the uncertainty associated with long-term forecasting, organizations generally focus more on short-term forecasting. To put it differently, organizations often narrow their focus to forecasting achievable results over a short period to enhance control over operations. Short-term forecasting is mainly concerned with the areas that are necessary to deliver goods and services. It usually provides results based on trends and seasonality. Demand forecast is an example of short-term forecast. Since short-term forecasting is done more frequently, organizations normally use simplified and less time-consuming methods for such forecasting. In operational or short-term forecasting, organizations normally have little or no ability to change the future forecast.[11]
- **Long-term forecasting**—This is also known as strategic horizon forecasting. Long-term forecasting is typically the responsibility of the top management of organizations. This forecasting provides the basis for formulating major goals and plans of organizations. For instance, long-term forecasting is useful in developing plans for future expansions and financing. The long-term forecasting period may extend up to five, ten or more years. The emphasis of long-term

forecasting is more on general economic, industry and market factors. It helps organizations in deciding long-term personnel requirements, capital expenditure requirements, financial requirements, size and direction of its future research and development programmes.

Box 6.1
Innovation Lab at Infosys

Organizations now realize that by improving the quality and accuracy of their forecasts, they can more easily see what interventions or innovations are required to meet their business performance targets. They also recognize that their biggest competitive advantage and differentiator in the future would be innovation. In this regard, the Innovation Lab at Infosys is worth mentioning.

Infosys has established an Innovation Lab as a part of the company's new strategic measure, "building tomorrow's enterprises." This lab has dedicated research and innovation facilities and a 600- member strong technology and domain-focused team with primary focus on research, innovation and] co-creation. This lab aims at delivering and managing innovation both inside the organization and outside—for customers and partners—and developing solutions to complex business problems. The team members of this lab focus on emerging technology areas and their business applications such as quantitative analytics for decision support, visualization and multi-model interactions, intelligent and adaptive system, large-scale simulations, semantic technologies and social media.[45]

In addition to the above classifications, organizations may also adopt medium-term forecasts having a time horizon of about five years for planning purposes. Medium-term forecasts are also known as business horizon forecasting. These forecasts are required to determine future resource requirements to procure raw materials, hire employees, or buy machinery and equipment.

Forecasts can also be classified as top-down forecasts and bottom-up forecasts based on the level of management on which the forecasts are made. Let us discuss them briefly.

- **Top-down forecasting**—This refers to forecasts that are done at the higher levels of management and pushed downwards for subsequent actions. In this method, management adopts a centralized approach towards forecasting. A small number of forecasters consider the various inputs gathered from different sources and generate forecasts. Forecasting, based on aggregate data, can be done ideally at the top levels only. It is also felt that top-down models often reflect better accuracy for top-level forecasting.[12]
- **Bottom-up forecasting**—In this case, forecasts from many members located at the bottom levels of the organizational structure are collected and then consolidated at the higher levels. This kind of forecasting is known as bottom-up forecasting. For instance, members of the sales team of an organization can make forecasts for their respective regions and this can be summed up later at a higher level to make a complete sales forecast. The general belief is that forecasting at the lower level reflects the actual nature of the business. However, bottom-up forecasting often has very poor accuracy at forecast levels.[13]

The decision regarding top-down or bottom-up forecasting is normally driven by the objectives of the forecasting.

Principles of Forecasting

Principles of forecasting represent advice, guidelines, prescriptions, rules and condition-action statements. These principles can help the forecasters to make more accurate forecasts. It also helps them to assess the uncertainty associated with forecasts. The primary purpose of the principles of forecasting is to minimize inconsistency and bias at different stages of the forecasting process.[14] We shall now look at a few fundamental principles (beliefs) of forecasting.[15]

1. Forecasting is a difficult process because it is about the future. It can rarely be perfect. This is because the future is always uncertain and unstable. According to an expert, the only thing that one can be sure about a forecast is that it is wrong.[16] It is hence necessary to have an estimate of forecast error, while forecasting the future.
2. Forecasting is different from planning as they are two separate concepts. Forecasting is quite often confused with planning. There is a subtle difference between forecasting and planning.

Planning is concerned with how the world should look like while forecasting is all about how it will look like.
3. Aggregate forecasts are normally more accurate than disaggregate forecasts. This is because aggregate forecasts normally have a smaller standard deviation of error in relation to the means. In other words, forecasts are typically more accurate for grouped data than for individual items. It is easier to forecast the Gross Domestic Product (GDP) of a nation than to forecast the annual revenue of a company or any one of its products with the same degree of accuracy.[17]
4. Short-term forecasts are generally more accurate than long-term forecasts. While attempting to forecast the future, managers should have a clear understanding of the: (i) variables on which predictions are to be based (e.g., an organization can forecast its future sales), (ii) time horizons for which predictions are to be made, (i.e. the results of forecasting for one month may not be the same as that of forecasting for a six-month period) and (iii) existing knowledge or database relevant to the intended forecasting. The adequacy or inadequacy of available information can have a significant influence on forecasting. Finally, forecasters must not have any biased or partisan attitude as they may tend to compromise on a clean forecast.

Key Elements of Forecasting

According to Chary,[18] forecasting seeks to analyse three elements, namely, the past, the present and the future. Forecasting fundamentally studies both the internal factors and external factors. These elements are partly controllable and partly uncontrollable. The outcome of forecasting depends, to a large extent, on how an organization shapes the controllable factors.

Mark A. Moon and others[19] suggest seven keys that can improve business forecasting. Though the key elements are given in the context of sales forecasting, most elements have much wider applications and are common to almost all types of business forecasting. Moreover, sales forecast is the principal driver of the forecasting process of many organizations. We shall now look at these key elements.

1. **Understand what forecasting is and what it is not**—This element refers to the organizational members’ understanding of the difference between planning and forecasting and also their ability to develop goals and plans based on forecasts.
2. **Forecast demand and plan supply**—This element refers to identifying the source of relevant information and developing a method to collect key about demand and supply.
3. **Communicate, cooperate and collaborate**—This element refers to adopting cross-functional approach to forecasting to ensure the cooperation of different functional departments.
4. **Eliminate islands of analysis**—This element refers to building a single forecasting structure and giving training to

both the developer and users of forecasts.

5. **Use tools wisely**—This element refers to the judicious combination of qualitative and quantitative tools of forecasting.
6. **Make it (forecasting) important**—This element refers to properly training the forecasters and also apprising them of the likely impact of poor forecasting on the organization.
7. **Measure, measure and measure**—This element refers to the establishment of multidimensional metrics and also incorporating multilevel measures.

Forecasting Process

Forecasting is the process by which organizations prepare for the future. This process can be either simple or complex. The primary focus of any forecasting process is on defining how information will be gathered and analyzed to have a clear picture of how the future will be. In the forecasting process, participants with a fair knowledge of the future share their information in a specific format to make a forecast. This forecast enables an organization to determine its plans and goals. It also ensures that these goals and plans are attainable and there is no internal inconsistency among these goals and plans.

Even though the common objective of any forecasting process is to make the best possible decision organizations can have their own unique forecasting process. As illustrated in Figure 6.1, organizations can also have the following stages in their forecasting process: (i) determining the objectives of forecasting, (ii) identifying the variables to be forecast, (iii) deciding the time horizon, (iv) data gathering, (v) selection and evaluation of forecasting model, (vi) data analysis and interpretation, (vii) forecast presentation and (viii) feedback. We shall now discuss briefly the steps in forecasting.

1. **Determining the objectives of forecasting**—The basic objective of forecasting is to support the decisions that are made on the basis of forecasts. It is therefore necessary to clearly specify the objectives of forecasts and also identify the areas of decisions. Forecasting begins when an organization seeks answers for its management questions. For instance, how much of a particular product is to be produced, how many employees are to be hired, how much of goods are to be kept in stock or how much of raw materials are to be bought are a few sample questions from management for which forecasts might find answers. Managers should also state clearly the role of forecast in the decision making.
2. **Identifying the variables to be forecast**—At this stage, the forecaster should decide the variables that are to be forecasted.

Variables affecting the organizations are either internal or external. The variables over which management can exercise control are known as internal variables. They may include, product (including quality, features, packing, etc.), price, marketing and distribution. Variables external to the organization and remaining beyond its control are known as external variables. They may include, labour market conditions, economic conditions like boom or recession, rate of interest and exchange rate fluctuations. Depending on the objectives formulated, the forecaster should decide on the appropriate variables to be forecasted. An organization may choose to forecast sales revenue for a specific period to determine the quantum of production.

3. **Deciding the time horizon**—This stage involves the determination of the length of forecasting time. Based on the objectives and variables to be forecast, organizations should choose short-term, medium-term or long-term forecasting. They should also determine the time interval for each round of forecasting. The time interval may be a year, bi-annual, quarter or month. For instance, financial budgets are normally prepared on the basis of annual forecasting. Similarly, short-term forecasting is appropriate for inventory management.
4. **Data gathering**—This is the crucial stage in the forecasting process as data required for forecasting are gathered. The source of these data may be internal, external or both. Internal data are normally readily available as they are mostly extracted from the documents maintained by the organizations. External data, which originate from outside the organization, are also collected. Organizations must ensure that the data collected are factually correct and are of high quality. Conventionally, aggregate data are better suited for forecasting as they are less time-consuming and less expensive than disaggregate data.[20] The data on the sales volume of a product (say, cars) are aggregate data whereas the sales volume data gathered on the basis of nature of customers or type of cars are disaggregate data.
5. **Selection and evaluation of forecasting model**—Different situations require different types of models. After careful examination of the objectives and problems of forecasting, the forecaster should determine the models that best serve their purpose. When deciding on forecasting, organizations should consider aspects such as probable end users of forecasts, nature, type and relevance of historical data available, level of accuracy required, time limit and cost–benefit of forecasts. While choosing specific forecasting models, organizations must ensure that the chosen models will perform well without making too many assumptions on the data-generating process.

   Typically, forecasters can choose any forecasting model that they consider appropriate for data analysis. Normally, they select a model that fits the data set, selected variables and assumptions. The two common methods of forecasting are: (i) qualitative methods and (ii) quantitative methods. Qualitative methods depend on experts' opinion for forecasting and decision making. Quantitative methods predominantly include mathematical and statistical models for predictions (forecasting methods are discussed later in this chapter). Once the forecasting models are identified, forecasters should assess the strengths and weaknesses of each model to determine their suitability for the present forecasting. The information requirements can influence the selection of the most suitable forecasting model. Organizations should adopt a dynamic approach to forecasting model selection because changes in market conditions and economic environment may require the selection of alternate models promptly.
6. **Data analysis and interpretation**—Using the chosen models, forecasters should analyse the data to generate forecasts. The

purpose of application of data analysis is to find the hidden predictive information in large amounts of data. Forecasters usually interpret databases using their knowledge and experience. Obviously, different forecasters can interpret the same data in different ways. Data reliability, together with forecasters' expertise, largely determines the accuracy of forecasting. Organizations can adopt a process called data mining for data analysis and interpretations. Data mining refers to the process of sifting through large amounts of historical data in search of hidden patterns and predictive information using statistical analysis, modelling techniques and database technologies. The ultimate goal of the data mining process is to extract knowledge from an existing data set and transform it into a human-understandable structure for further use.[21]

7. **Forecast presentation**—Once the forecasts are ready, they should be presented to the management for use. It can be a written report, oral presentation or both. The forecaster needs to understand that proper communication of forecasting results to the management is as important as making the forecast. The forecast to be presented to the management must be lucid, understandable and reader-oriented. It should inspire the confidence of the managers. It should allow the managers to make appropriate decisions. It would be better if the report is relevant, information is recent and tables are not too lengthy. For instance, when the forecasts are too technical or difficult to be understood, managers may not actively consider them for decision making. In such a situation, the fundamental purpose of forecasting gets defeated. In the words of Mark J. Lawless,[22]
   "In communicating the results of forecasting to the management, the forecaster must be capable of communicating the findings in language which the functional managers can understand and which is compatible with the corporate culture."
   While preparing the forecast report, the forecaster must be well aware of the intended purpose and how and when the forecast would be used. The intended purpose may be planning, controlling or budgeting. The forecasting report should be well-organized and in an eye-catching format.
8. **Feedback**—Forecasting is a continuous activity of organizations. It is hence essential that the forecasting process has adequate provisions for gathering feedback about its efficiency and also for making improvements, when required. The forecasting process must permit a free and frank exchange of opinions, concerns and views among forecast developers and users, especially when there are forecasting errors. Input and guidance from the managers, supervisors and experts must be given due importance when the forecasting process, models and techniques are decided.

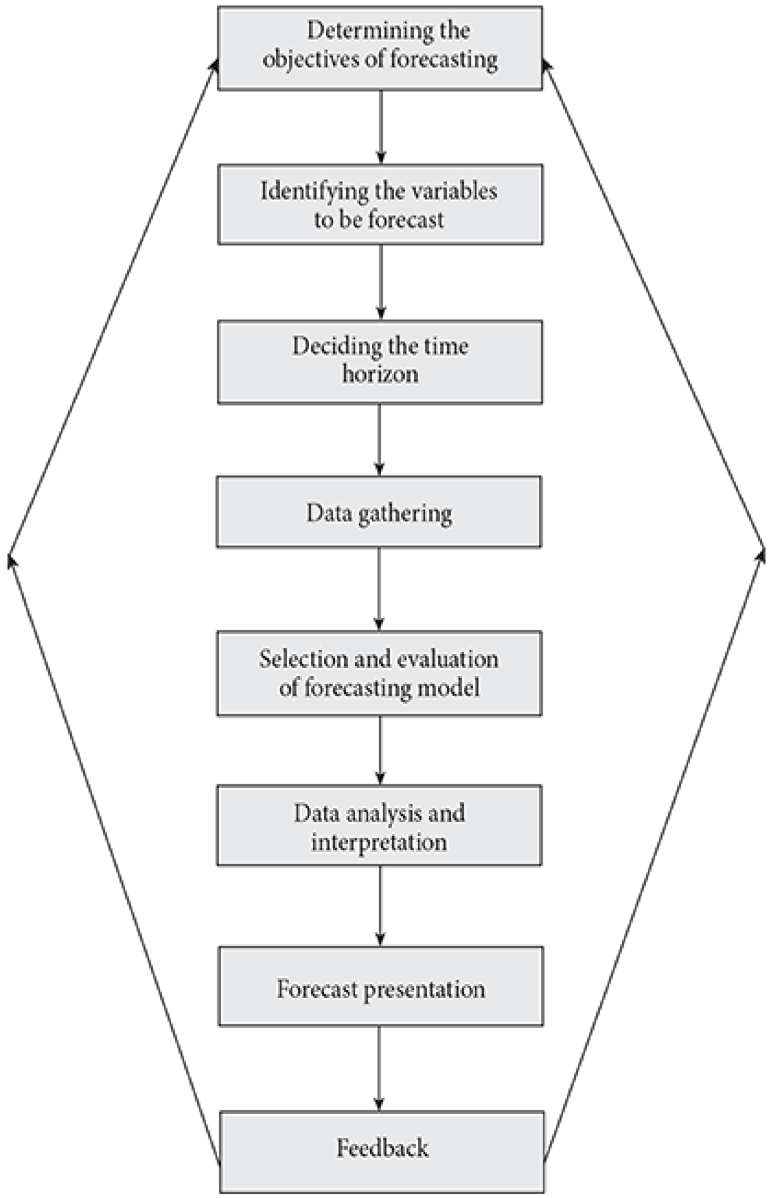

Figure 6.1
Steps in the Forecasting Process

Techniques of Forecasting

Forecasting techniques can be broadly classified into qualitative techniques and quantitative techniques. While choosing specific techniques, managers[23] should take into consideration the following factors:

1. **Availability of time**—It refers to the time required for data generation and forecasting report generation. The time available for forecasting is normally decided by the frequency of the forecasts (such as daily, weekly, monthly, quarterly or yearly forecasts).

Similarly, forecast horizons like short-, medium- and long-term forecasts also influence the technique selection.

2. **Technical sophistication required**—It refers to the extent to which the statistical and mathematical models are to be used for data interpretation.
3. **Cost of forecasting**—It refers to the cost per forecast. It includes the expenses to be incurred for data generation and analysis, and forecast report preparation besides the cost of forecasting errors.
4. **Data availability and accessibility**—It refers to the availability of relevant and quality data for forecasting and also the frequency of access required to these data.
5. **Data variability**—It refers to the frequency of changes in data used for forecasting.
6. **Extent of details required**—It shows whether the forecasting should be based on aggregated or disaggregated data.
7. **Degree of accuracy required**—It refers to the tolerable levels of accuracy in forecasting as total accuracy is not possible.
8. **Turning points**—It refers to the possibilities of changes in the environment that may produce threats and opportunities to the organization.
9. **Nature of report required**—It refers to the form and nature of forecast to be presented to the management.

The above-mentioned factors have different degrees of influence over the selection of forecasting techniques. Besides, the choice of a technique is also significantly influenced by forecasting accuracy requirements.

Scott Armstrong[24] has identified six ways of selecting forecasting techniques. They are: (i) convenience of forecaster, (ii) market popularity, (iii) structured judgement which refers to the process by which the forecasters compare various forecasting techniques against the explicit criteria developed by them, (iv) statistical criteria, (v) relative track records—past performance of the techniques and (vi) guidelines from prior research. We shall now discuss the important models available in qualitative and quantitative techniques as shown in Figure 6.2.

Qualitative Forecasting Techniques

Qualitative techniques are primarily the subjective nature of forecasts. In this technique, forecasts are made on the basis of judgement, intuition and informed opinions of the forecast experts, managers, etc. These techniques are particularly useful when past data are not available (e.g., new product developments). They can also be appropriate for situations when the data change drastically. The accuracy of forecasting critically depends on the unique knowledge, experience, understanding and expertise of the forecasters.

The major weakness of qualitative techniques is that different forecasters can make different forecasts out of the same data. These techniques often suffer from the problems of bias of forecasters. Often, managers use qualitative forecasting techniques for arriving at medium- and long-term decisions. The important models of qualitative techniques are (i) the Delphi method, (ii) jury of executive opinion, (iii) judgmental bootstrapping, (iv) conjoint analysis, (v) role playing, (vi) sales force opinion and (vi) market factor analysis.

1. **Delphi method**—Delphi method is a qualitative forecasting technique. This method uses a panel of experts ideally with different backgrounds to generate forecasts. Forecasts in this method are made based on the collective opinions of these experts. The participants of this forecasting group may be internal or external to the organization. This method is effective in allowing a group of individuals, as a whole, to deal with a complex problem by structuring the group communication process. The steps in the Delphi forecasting process are as follows.

    1. A planner/coordinator prepares a questionnaire on the issue that requires decision. Such questionnaires normally contain information on the character, causes and future shape of the problems at hand. These questionnaires are distributed individually to a group of experts who then respond by providing their opinions and judgments along with the justification.
    2. The individual responses of the panel members are summarized by the planner/coordinator. These collected responses are then sent back to the experts for their opinions and comments without identifying the individuals behind the responses. Experts now get an opportunity to change their assumptions on the issue and on their predictions. Each expert is free to change his or her previous position and come up with new opinions and judgments. The experts once again send back the same or revised opinions to the planner/coordinator.
    3. The planner/coordinator now prepares a second summary of responses and transmits them to the expert groups. This process continues until the experts reach some kind of agreement about their response. If an agreement is not possible after several rounds, the planner/coordinator must terminate the process after pinpointing where the disagreements occur, and use the results to indicate the specific problems in the prediction process.

    Since the participants do not meet face-to-face, this method rules out the undue influence of any dominant member of the group on other members. The Delphi method is appropriate for medium-to long-term forecasting. The limitation of this method is that it is time-consuming and expensive. The quality of forecasting depends highly on the composition and expertise of the panel members.

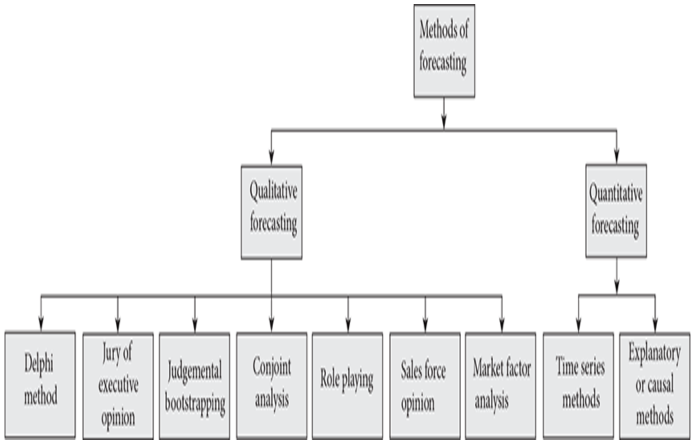

Figure 6.2
The Techniques of Forecasting

2. **Jury of executive opinion or executive opinion method**—It is a top-down qualitative forecasting technique. In this technique, a forecast is arrived through a combination of opinions and predictions made by knowledgeable managers and experts. In this method, managers at the higher levels come together to discuss their opinions on what will happen in the future. These managers may be the heads of their functional departments, such as production, marketing, finance, human resources, etc. This method can also be adopted for single functional departments like sales department, where managers from different regions may form a jury to forecast future sales. In this method, members of the jury present their own initial opinion based on the data given to them. They then review each other's work and also revise their own opinion and estimates, if needed. Finally, the individual opinions are combined to complete forecasting. Wherever necessary empirical analysis can be done to support or supplement the executive opinions.[25]

   In the jury of executive opinion method, an interdependent and collaborative approach is adopted by members towards forecasting. For instance, the production manager may change his initial forecasts to align it with the sales manager's forecast. Similarly, the financial manager may alter his financial forecasts after reviewing the HR manager's opinion on future hiring. This method is an ideal approach to forecasting when there are no past data available. This method also provides for a kind of peer review to indicate errors in forecasting in a friendly manner. The limitation of this method is that the dominant members may try to dominate and impose their views on others, which may distort the forecasting process. Lastly, if several forecasts are needed, expert forecasts may prove to be an expensive exercise.
3. **Judgmental bootstrapping**—When organizations cannot afford the expensive jury of executive opinion forecasting method, they may opt for the less expensive judgmental bootstrapping method. In this method, the subjective judgments of experts are gathered and then converted into objective procedures for future references. The process involved in the judgmental bootstrapping method is as follows: (i) Forecasting experts make their predictions for a series of conditions. (ii) The process is then converted into a set of rules by regressing the forecasts against the information used by the forecaster.[26]

   In the case of sales forecasting, for instance, experts will predict the future sales performance of the company in different geographical regions. Judgmental bootstrapping models are most useful for repetitive complex forecasting problems for which data are not sufficiently available. Once introduced, judgmental bootstrapping models can become a low-cost procedure for making forecasts. This method ensures better accuracy than other qualitative forecasting methods, even though these improvements are modest.[27]

4. **Conjoint analysis**—Conjoint analysis is the survey-based method used frequently by managers to get consumer inputs for guiding their new product development decisions. The primary objective of this forecasting technique is to identify the market preferences and then determine the market potentials for new products. In this method, forecasters seek the opinion of the consumers in a target market on certain features (presently available or not available) of a product or service under a range of hypothetical situations. The results help them to estimate the likely preference for the product under consideration. It also facilitates the managers to make an indirect estimate of the customers' willingness to pay for product improvements and modifications.[28]
5. **Role playing**—Role playing can be used by managers to forecast decisions. This method is ideal for situations that involve conflicts. For instance, the sales manager of a company may want to know what would be the likely response of the competitor to a new sales promotion measure. As a part of the forecasting process, the administrator (manager) prepares a description of the situation, explains the role to the participants and also provides a short list of possible decisions. Then, the administrator asks participants to play their roles and uses their "decisions" as forecasts. Participants engage in realistic interactions with the other role players until they reach a decision. The simulation exercise may last between 30 and 60 minutes. This method is suitable for situations where past data are unavailable or insufficient. However, this method may be unsuitable for complex situations where participants are required to play divergent roles actively.[29]
6. **Sales force opinion**—This method is also called the sales force composite method. It is an important forecasting technique especially for sales forecasting. In this method, sales managers get sales forecast from sales people who have intimate knowledge of the customers, including their tastes, preferences and attitudes. In this process, the sales managers gather individual forecasts from each sales person responsible for a specific region and then aggregate them to generate an overall sales forecast.

   Sales forecast is a dynamic method of forecasting as the sales people can take note of changes in consumer tastes and preferences immediately and report them to the higher authorities through their forecast reports quickly. This method can generate accurate forecasting if the organization has a competent and well-informed sales force. This method is more suitable for organizations that have a few large customers and the sales people work closely with them. The limitation of this method is that sales people may tend to underestimate or overestimate the future sales projections to suit their conditions. For instance, they may deliberately lower their forecasts so as to avoid stiff sales targets in the future. Also, they may not have the time and expertise necessary for sales forecasting. This may affect the accuracy of forecasting.
7. **Market factor analysis**—In this method, forecasting is done on the basis of the behaviour of one or more market factors. The basic assumption of this method is that it is possible to predict the future sales by studying the behaviour of certain critical and relevant factors. The process of this forecasting involves the identification of important market factors and understanding their relationship with sales. The identified market factors normally have a decisive

influence on the sales performance of the products marketed by the organization. However, it should be ensured that the number of these factors is kept to a minimum for simple, effective and purposeful forecasting. For instance, an automobile company studying the potential for manufacturing replacement tyres can consider the[30] average age of the tyres as an important factor for forecasting.

Quantitative Forecasting Techniques

Quantitative techniques are the objective form of forecasting techniques. In these techniques, mathematical and statistical formulae are widely used to forecast the future. These techniques are capable of producing the same forecast results irrespective of forecasters. Unlike qualitative techniques that rely on opinions, forecasters using quantitative techniques work with past data to extrapolate or project the future trends. These techniques facilitate the forecasters to consider large amounts of data and several variables at a time for forecasting. Quantitative methods are found to be more helpful in making better predictions on the future course of action than qualitative techniques.[31] Quantitative techniques are broadly classified into time series methods and explanatory (casual) methods. We shall now briefly discuss these methods.

Time-series methods—This method is called the time-series method because it uses time series on past data and the variables forecasted. In this method, forecasts are made entirely on the basis of the historical patterns of the data. In other words, forecasters need only the past value of the variable to be predicted. The basic assumption of this method is that past trends are good indicators of the future trends. The past trends are carried over to the future too, except in unforeseen situations.

This method can produce accurate results if the future is expected to be similar to the past. In any time series, measurements of past trends or movements are taken at successive points or periods. For instance, the measurements can be taken every hour, day, week, month or year. To predict their future annual sales, organizations may review their sales over the past several years, say 10 to 15 years. Similarly, organizations may review their first three quarterly sales to forecast the likely sales in the last quarter of a year. Simple moving averages, weighted moving averages, autoregressive method, box-Jenkins model and exponential smoothing (a sophisticated weighted averaging method) are a few models of time series methods. Time series are generally more helpful for predicting broad environmental factors than for predicting the impact of present or future actions. Since time series rely on past trends for prediction, there can be danger in their use, if environmental changes are overlooked.

Explanatory or causal methods—This forecasting method aims at explaining the functional relationship between the dependent variable (say, sales volume) and the independent variables or predictors (say, advertising expenditure, consumer spending pattern and brand awareness) that account for changes in the dependent variables. The basic assumption of this method is that the variable being forecast has a cause–effect relationship with one or more other variables. This method is considered as the sophisticated form of forecasting. Predictions in this method are based on a combination of several factors, probabilities and assumptions.

Explanatory methods are known for their predictive power as well as explanatory power. Unlike time series which predicts what the future trend will be, explanatory methods also explain how and why a particular trend occurred. They allow managers to assess the likely impact of changes in the predictors. Regression models and econometric models are a few examples of this method. The merit of this method is that it helps managers to get deeper insights into the causal relationship among variables. It also predicts the future trends, especially the "turning points" in future, far more effectively than the time series methods. However, explanatory methods are comparatively more complex and expensive than time series methods. Box 6.2 shows the important analysis techniques used by an India-based multinational company.

In addition to the above two major methods of forecasting, a few other techniques are also available for forecasting. Let us discuss them briefly.

Box 6.2
Wipro's Analytics Initiatives

In the constantly changing environment, it has become increasingly difficult to make accurate and timely forecasts. However, large organizations have the capacity to set up specialist units to provide forecasts for a wide range of subjects. They usually keep the means and resources to do, for instance, an analysis of the competition, an appraisal of product design and development and an assessment of pricing policy.

However, small or medium firms with less technological growth often depend on their "gut feel" of buyers and on the experience of their managers to make decisions. Of late, even these business firms have begun to use data to make their forecasts and decisions. In this regard, they outsource their forecasting and analytic (analysis) requirements. Wipro is one of the major companies that facilitates superior decision making by its clients through the optimal use of advanced analytics. The major analytic intervention programmes of Wipro include predictive analytics using statistical modelling, demand forecast and validation, stores labour forecasting, pack and size optimization, merchandise analytics, design of experiments, etc.[46]

Focus forecasting—This is an approach to forecasting developed by Bernard T. Smith. In this method, managers try a variety of forecasting models like simple moving average, weighted average and exponential smoothing methods for forecasting. The method that produces highest accuracy with least forecasting errors is identified by the managers and is then used for subsequent forecasts. The two basic assumptions of this model are as follows: (i) modern forecasting techniques need not always be better than traditional forecasting techniques and (ii) there can be no single technique available for all purposes, products and services. After testing seven forecasting tools, ranging from simple to sophisticated techniques, Smith concluded that focus forecasting techniques produced brilliant results.[32] However, the focus forecasting method is better suited for short-term forecasting periods only.

Bass diffusion model—This model developed by Frank Bass is widely used to forecast the growth trends and the potential market volume of new and innovative products. This model employs statistical tools to estimate a new product's diffusion or adoption speed and the total market potentials. A product's sales increase in a given period indicates the speed of diffusion while maximum sales achieved by the product after its market entry indicate its total market potential. This method views factors like word of mouth, media attention and total market potential as shaping the speed of product diffusion. This model is one of the popular and extensively used forecasting methods of developing the curve of product life cycle.[33] This method also helps managers in assessing the worthiness of investing in new technologies.

Break-even analysis—It is a quantitative technique widely used by organizations for profit forecasting. The break-even method can be applied to a product, an investment or the entire operation of an organization**.** Break-even point is the point at which organizations make neither profit nor loss. This technique focuses on the interrelationship of cost, sales volume and profit. This analysis shows how much revenue an organization should make to cover both its fixed and variable costs. Fixed cost is a cost that remains constant regardless of the level of production (eg., rent, salary, etc.) while variable cost is a cost that varies with the level of production (eg., material, wages, etc.). This technique enables the management to know when an investment will begin to generate profit. It aids in the planning process by helping organizations forecast the impact of changes in such factors as variable cost, fixed cost, selling price and sales volume on the organization's earnings or profits.[34]

Project Evaluation and Review Technique (PERT)—PERT is an important project scheduling (a process of establishing a time sequence for the work to be done) and a management technique that allows the production managers to forecast, plan, manage and control complex projects. These projects are typically made up of numerous separate tasks performed by a variety of departments, units, individuals, etc. PERT diagrams show the flow of the projects and indicate the interdependence of the tasks. They also indicate the sequence of events from the start of a project to its termination. PERT flow chart is an effective forecasting technique for predicting the future essentials of an organization's project or process. It facilitates managers to explore and consider the future possibilities, difficulties and uncertainties related to a project. It gives a visual representation of the task sequencing for forecasting a project along with the cost and time required for each sequence.

Budgeting—Budget is a written estimate of how an organization or its department, will perform financially. Budgets are fundamentally the forecasts of organizations concerning their future performance. The forecasts may be for the whole organization through a master budget or for different functions through functional budgets. Cash budget, production budget, material procurement budget, labour budget, expenses budget, sales budget and capital budgets are a few examples of functional budgets. Cash budget, for instance, will help the management to forecast how much of cash they will need and when they will need it. Budget forecasting is an important part of planning the future of a business. Budget forecasting can be done for a month, year or even a decade.

Linear Programming Technique (LPT)—It is a mathematical technique for determining a way to achieve the best outcome, (say maximum profit or lowest cost) with the aid of mathematical models. It is basically a problem-solving approach to solve a broad class of optimization problems, including resource allocation problems. This quantitative technique is often used by operation managers to get best solutions to problems that involve restrictions relating to material availability, budget constraints, labour and machine time restrictions. This technique has wide application in business planning and decision making. In operations management, it has found applications in areas like personnel scheduling, distribution and logistics inventory control, production planning, assignment problems and production blending problems.[35] LPT can be effectively used as a forecasting technique to develop budgets based on an optimal programme or product mix to achieve the goal of profit maximization or cost minimization.[36] Since linear programming primarily focuses on solving problems relating to the accomplishment of a single goal, organizations now use goal programming technique (GPT), an improvement over linear programming technique for dealing with problems arising out of multiple goals that are incompatible with one another. The key aim of GPT is getting satisfactory solution rather than best solution to conflicts.

While choosing the best forecasting methods, managers should keep in mind that optimum forecast accuracy cannot be the only selection criteria in choosing a specific method. They should also consider other criteria such as the ease of interpretation, ease of use, flexibility, availability of data and practicability of selection decisions.

Challenges in Forecasting

In most instances, forecasting is done for uncertain and unstable futures. This uncertainty often creates problems of forecasting errors and failures for the forecasters'. Forecasting failures cause loss of time and resources for organizations. Further, they frustrate the forecasters' efforts. As shown in Figure 6.3, the challenges in forecasting are:

1. **Forecast errors**—Forecasting error refers to the difference between the forecast values and actual values. Forecasting errors may be positive or negative. Positive errors represent over-forecast of value while negative errors represent under-forecast. When forecast errors are consistently positive or negative over a period of time, then bias in forecasting is a certain possibility. Forecast bias can occur due to any of the following biases.

    1. **Survivorship bias**—This bias may arise in forecasting when the data series or records include only those data that

existed till the end of the period. In other words, survivorship bias occurs when the data include only those people or things that “survived” some process and unintentionally ignore those who “left” the process early. This may happen due to the non-availability of information about them at the time of forecasting. For instance, in recruitment forecasting, the data analysis may use past data relating to those who have completed certain stages in the selection process and not those who participated in the selection process but got eliminated in the early stages.

In investment analysis, survivorship bias is often called “look ahead” bias. This bias occurs when the forecasters use information or data in the study that would not have been known till the end of the period under study. For instance, if the investor simulates the future trade trends based on the information that was not available at the actual trade. Certain information on stock trade may normally be available only a few hours or days after stock market closure.[37] The failure to exclude such future information will usually lead to inaccurate results in the study.

2. **Time period bias**—This bias pertains to results that are time period specific. Time period is normally attributed to short-, medium- and long-term forecasting. For forecasting accuracy, the time period must be appropriate to the exercise. Generally, the forecast accuracy decreases as the time period covered by the forecast increases. Since forecast results are often found to be sensitive to the selection of time period, unsuitable time period of forecasting may result in time period bias.
3. **Anchoring trap**—When undue importance is given to the initial data or the first information received on the topic of study by the data analyst, it is called anchoring trap. The analysts’ mind may be unduly influenced or anchored by the initial impressions, which may affect their subsequent thoughts and judgements. Tendency to reach premature conclusions and lack of open mind are often cited as the causes of forecasting problem.
4. **Status quo trap**—When data analysts develop the tendency to believe that the current situation (status quo) would persist in the future too, it is called a status quo trap. Risk of forecasting error may force analysts to favour those alternatives that perpetuate the current situation. Similarly, analysts prefer status quo when alternative solutions to the problems are large in numbers. When radically new products are introduced in the market, consumers normally prefer to stay with their existing products for quite some time.
5. **Confirming evidence trap**—When data analysts provide greater importance to information that supports their view points or intuitions over information that differs, it is referred to as confirming evidence trap. The outcome of this trap may be the analysts’ inclination to give too much weight to supporting information and inadequate weight to conflicting information.
6. **Sunk cost trap**—When data analysts tend to choose alternatives that justify their past decisions or perpetuate their past mistakes, it is called a sunk cost trap. Forecast accuracy is often affected by sunk cost trap, especially when the investments in time and resources already made on the basis of earlier forecasts are substantial and irrecoverable. Difficulties in accepting the past mistake and the resultant criticisms may force forecasters to continue with the past

    mistakes. For instance, a marketing manager may persist with a particular advertising strategy even if it becomes clear that the strategy has not worked well when he fears any harm to his self-esteem and status.
 7. **Framing trap**—When a problem is faultily framed or a situation is misstated, it results in framing trap. The way a problem is framed can strongly influence choices made for solving it. The same problem may get very different responses when it has been framed in different ways. The framing trap can undermine the forecasting as well as the decision-making process.
 8. **Overconfidence trap**—When the forecasters make exaggerated claims on the accuracy of their forecasts, it is called an overconfidence trap. This happens when the forecasters are unrealistic about their ability to make accurate forecasts.
 9. **Prudence trap**—When forecasters are overcautious while estimating the uncertainties associated with the future, it is known as a prudence trap. When the stakes are very high in their decisions, managers or forecasters often like to adjust their estimates or forecasts just to be on the safer side.[38]
 10. **Recallability trap**—When forecasters develop an inclination to make predictions based on their memory of past events, it is called the recallability trap. Forecasters can be excessively influenced by negative events, dramatic events, catastrophic occurrences or any other events that had made a lasting impression on their memory. These events are capable of distorting the thinking pattern of the forecasters.
 11. **Data mining bias**—Data mining refers to searching the data set till some hidden pattern or predictive information is found out through statistical tests. But such a pattern cannot be expected to be of predictive value in all circumstances.[39] Data mining error can also occur when: (i) data miners overlook measurement error in raw data, (ii) they assume the availability of more than adequate data and processing power, (iii) the data are truncated and censored and (iv) there are poorly designed experiments for data mining.[40]

2. **Data obsolescence**—In many occasions, past data form the basis for future forecasting. But there is no guarantee that the conditions in the past will persist into the future. Sudden and unexpected developments in the organizational environment can make data obsolescent. Any forecasting based on such obsolescent or outdated data will result in wrong forecasting, poor planning and misdirected initiatives and efforts. It is therefore necessary that the forecast analyst must understand that the time lag with which economic data are collected, processed and disseminated can be an impediment to their eventual use.[41]
3. **Data error**—Accurate data is the basic requirement for successful forecasting. When there are errors in the underlying data, then the forecast accuracy will be seriously compromised and the purpose of forecasting will be defeated. Understandably, the quality of a set of forecasts would vary depending on whether data errors were found to be a significant or insignificant component of forecast errors.[42]
4. **Wrong assumptions**—Assumptions are normally made by the forecasters based on their assessment of the future environment. These assumptions may go dangerously wrong due to unexpected or unpredictable happenings in such environment. When the assumptions go wrong, it can affect the whole forecasting process, including data gathering and analysis.

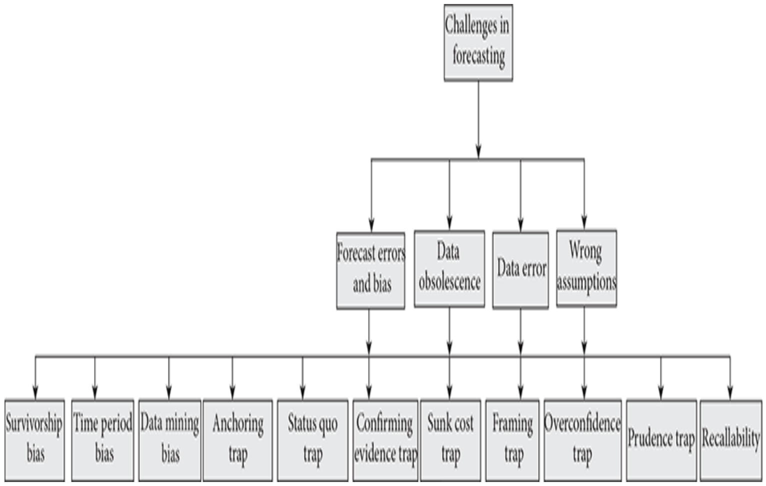

Figure 6.3
Challenges in Forecasting

Apart from the challenges of errors and biases, the quality of forecasting may also be affected by typing errors, transcription errors, data handling errors, measurement errors, data inconsistency and inadequate representativeness of data samples. Further, forecasting accuracy may be compromised by mathematical modelling errors. These errors are generally classified into type-I errors and type-II errors. Type-I errors arise from the use of inadequate or invalid mathematical model but with correct parameters. Type-II errors result from the use of a perfect mathematical model but with inaccurate parameters.

Guidelines for Effective Forecasting

To enhance the effectiveness of forecasting, Saffo[43] has advocated six important rules. Let us discuss them briefly.

1. **Define a cone of uncertainty**—According to Saffo, a well-defined cone can help the decision maker to make strategic judgements. He has developed a cone of uncertainty to compare the effects of the short-term and long-term forecasting. This cone facilitates managers in visualizing the future uncertainties in forecasting. According to him, the uncertainty is less in a shorter period of forecasting (like a narrow cone of uncertainty). As the time period of forecasting gets longer, the uncertainty is likely to increase (like a wider cone of uncertainty). To make an effective forecasting, it is important for the forecasters to draw the cone in such a way that it includes all reasonable possibilities that lie ahead.[44]
2. **Look for the S-curve**—The most important developments in the environment usually follow the S-curve shape. They unfold very, very

slowly in the beginning and then suddenly explode after reaching a critical point before tapering off. It is essential for forecasters to accurately identify an S-curve pattern as it begins to emerge, well ahead of the inflection point, which is the moment of take off.

3. **Embrace the things that do not fit**—Forecasters must have the instinct or intuition about the things that might be important in future even if they do not fit into the current scheme of things. They must keenly look for subtle indicators of things that are signs of impending major changes.
4. **Hold strong opinions weakly**—Forecasters should forecast quickly based on the information available but remain open to new data and views that may prove their earlier conclusions wrong. Effective forecasting is often the outcome of a sequence of wrong and failed forecasts. It is hence necessary for forecasters to forecast often and be the first one to prove themselves wrong before others can do it.
5. **Look back twice as far as you look forward**—It is important for forecasters to look back far enough into the distant past to identify the patterns that are fundamental to the changes. This is because the recent past cannot be a dependable indicator of the future. Forecasters should resist their desire for certainty and continuity that often lead them to draw wrong conclusions.
6. **Know when not to make a forecast**—Forecasters must know for sure the situations and times that need forecasting and those that do not need forecasting.

Forecasters should also understand the fact that certain human behaviours can be predicted fairly accurately through forecasting. They are structured or systematic behaviours governed by rules and norms. There are certain other behaviours that are difficult to be predicted. One of them is random behaviour, which is behaviour with little or no precedence and rarely governed by rules. In any case, the success or failure of forecasts is largely determined by the way the forecasters use their common sense to assess the situations, gather and analyse data, generate forecasts and review the quality of the forecasts.

Summary

1. Forecasting is a systematic effort at predicting the future events by inferring the relevant facts on hand.
2. Forecasting is important for organizations as it facilitates: (i) better anticipation, (ii) situational awareness, (iii) better responsiveness, (iv) improved coordination, (v) better customer services, (vi) better utilization of resources, (vii) lower costs, (viii) fewer future shocks, (ix) quality decisions and (xi) standards for comparison.
3. The types of forecasting are short-term forecasting, long-term forecasting, top-down forecasting and bottom-up forecasting.
4. The stages in the forecasting process are: (i) determining the objectives of forecasting, (ii) identifying the variables to be forecast, (iii) deciding the time horizon, (iv) data gathering, (v) selection and evaluation of forecasting model, (vi) data analysis and interpretation, (vii) forecast presentation and (viii) feedback.

5. Forecasting techniques can broadly be classified into qualitative and quantitative techniques. The important models of qualitative forecasting techniques are (i) Delphi method, (ii) jury of executive opinion, (iii) judgemental bootstrapping, (iv) conjoint analysis, (v) role playing, (vi) sales force opinion and (vi) market factor analysis.
6. The quantitative techniques can be classified into time series methods and explanatory (casual) methods. A few other types of forecasting techniques are focus forecasting, bass diffusion model, break-even analysis, project evaluation and review technique, budgeting and linear programming techniques (LPT).
7. Challenges in forecasting are forecast errors, data obsolescence, data errors, and wrong assumptions. Forecasting errors include survivorship bias, time period bias, anchoring trap, status quo trap, confirming evidence trap, sunk cost trap, framing trap, overconfidence trap, prudence trap, recallability trap and data mining bias.
8. Guidelines for effective forecasting include the following: (i) define a cone of uncertainty, (ii) look for the S-curve, (iii) embrace the things that do not fit, (iv) hold strong opinions weakly, (v) look back twice as far as you look forward and (vi) know when not to make a forecast.

Review Questions

Short-answer questions

1. Define the term forecasting.
2. Briefly explain the importance of forecasting in the planning process.
3. State the principles of forecasting clearly.
4. What are the key elements of forecasting?
5. Write short notes on: (a) jury of executive opinion and (b) judgemental bootstrapping.
6. Explain the bass diffusion model of forecasting briefly.

Essay-type questions

1. Critically evaluate the different types of forecasting with relevant examples.
2. Discuss in detail the different stages of the forecasting process with appropriate examples.
3. Enumerate the various techniques of forecasting available to managers.
4. Sound forecasting is an essential ingredient of successful planning. Discuss.
5. Forecasting is an important guard against guess work in decision making. In light of this statement, describe the significance of forecasting to business.
6. Examine the challenges faced by managers in forecasting and also state the guidelines to be followed for effective forecasting.

Case Study

Missed Trends, Times and Opportunities for Nokia

Nearly 150 years ago, Nokia began its operations as a riverside paper mill in south-western Finland and then gradually diversified its business operations. At one point of time, Nokia was engaged in the manufacturing of products as diverse as rubber boots, car tyres, TVs, cables and consumer electronics. However, in the year 1992, Nokia made a crucial strategic decision to focus exclusively on manufacturing mobile phones and telecommunications systems. As a result, Nokia gradually sold off its existing businesses like rubber, cable and consumer electronics divisions. By 1998, Nokia became an international brand and a market leader in mobile phone business. Its strategic decision to focus on telecommunications, plus early investment in GSM, has richly paid off. For instance, between 1996 and 2001, Nokia's turnover increased almost fivefold from EUR 6.5 billion to EUR 31 billion.

Having dominated the mobile world for over a decade, Nokia suddenly lost its way in the market. This is because the management of Nokia failed to take serious note of one major development in the market, namely, the smartphone revolution. When its major competitors like Apple and Samsung made deep inroads in the smartphone development, Nokia continued to focus on mobile phone devices (hardware) rather than mobile phone applications (software) and thus wasted precious response time. Nokia was also surprised by the speed with which consumers moved from the traditional mobile phones to smartphones. When the competitors were picking up pace in the market, Nokia began to suffer rapid decline in sales, revenue and market share.

Due to this embarrassing failure in market forecasting, Nokia had lost more than USD 88 billion in market value by June 2012, particularly after its arch rival Apple introduced the iPhone in the year 2007. Nokia's employees too expressed reservations about its corporate communication system, decision-making style (like slow and inconsistent decisions), etc. To tide over the precarious situation, Nokia resorted to a series of actions like effecting leadership changes, cost-cutting measures in the form of retrenchments, transporting jobs from Europe to Asia, entering strategic partnerships (with Microsoft) for jointly developing smart-phones, executing significant changes in organizational structure (like decentralization), etc.

Though the emergence of stronger and more successful competitors like Apple, Samsung, RIM, Google, LG and the volatile market conditions indicate stiffer battles for Nokia in the market, it is confident that its actions would bear fruit sooner than later.

Questions

1. According to you, what are the fundamental causes of the present plight of Nokia, especially from the management perspective?
2. How do you foresee the short-term and long-term future of Nokia?
3. In addition to the measures already initiated, what more can be done by the management of Nokia to tackle the present situation?
4. Do you have any suggestions for strengthening the planning process of Nokia, especially its forecasting system?

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PART III:

Organizing

CHAPTER 7

Organizational Structure

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning and characteristics of organizing
2. Enumerate the importance of organizing
3. Explain the principles of organizing
4. Describe the process of organizing
5. Understand the meaning and definitions of organizational design
6. State the meaning and definitions of organizational structure
7. List the factors affecting organizational design and structure
8. Describe the types of organizations
9. Understand the meaning and definitions of organizational chart
10. Explain the benefits and limitations of job specialization
11. Enumerate the factors influencing the span of management
12. Describe the meaning and purposes of departmentalization
13. Understand the bases and types of departmentalization

India's Inspirational Managers

Lakshmi Mittal is the chairman and CEO of ArcelorMittal, the world's leading steel and mining company. Mittal founded Mittal Steel in 1989, and guided its strategic development till it merged with Arcelor in 2006. He is today considered as a pioneer in mergers and acquisitions after this mega merger deal. This company has presence in more than 60 countries and has employed 198,517 people as on 2017. It has earned a revenue of US $68.67 billion (2017). Mittal believes that the lean organizational structure of ArcelorMittal has played a vital role in its efficiency. Mittal strongly believes in decentralization, since his company has a commitment to ensuring different parts of the business are empowered to make decisions, and ensuring accountability at the right level within the company. Moreover, Mittal's company has created a flexible organizational structure that facilitates the smooth acquisition of numerous steelmaking and other companies. The global steelmaker Mittal uses the size, structure and worldwide reach of his company to optimize the resources and services across the company and also to achieve economies of scale in operation. With this information in the background, let us discuss the different aspects and importance of organizing in this chapter.

Introduction

As a managerial function, organizing aims at bringing together the necessary physical and human resources to achieve the organizational goals and plans. If organizational goals and plans define what to do, organizing defines how to do it.[1] The primary purpose of organizing is to bring order to the organization so that there is no confusion and commotion in the conduct of the business. It involves determining how necessary resources and activities of an organization can be effectively arranged and integrated to perform the predetermined functions. It is actually a process of defining and grouping of activities and then establishing authority–responsibility relationship among them. Organizing also helps managers to build, develop and maintain working relationships, which is essential for achieving organizational objectives. The basic principles of organizing are universal in nature even though each organization may have different size, stature, goals and environment.[2]

An organization is nothing but a whole consisting of several unified parts (departments). The role of organizing here is to properly divide the whole into parts and then unify these parts in an orderly manner to achieve the organizational goals, vision and mission. We shall now see a few definitions of organizing.

Definitions of Organizing

The ultimate result of organizing as a process is the creation of an organization. Most definitions of organizing focus on the organizational goal accomplishment through proper arrangement and allocation of activities, authority and resources among people.

“Organizing is the process of designing jobs, grouping jobs into units and establishing pattern of authority between jobs and units.” —Ricky W. Griffin.[3]

“Organizing may be defined as arranging and structuring work to accomplish an organization’s goals.” —Stephen P. Robbins.[4]

“Organizing is the process of engaging two or more people working together in structured way to achieve a specific goal or set of goals.” —James Stoner.[5]

“Organizing is defined as the deployment of organizational resources to achieve strategic goals.” —Richard L. Daft

We may define organizing as a process that involves the arrangement and grouping of organizational activities and resources, and establishment of relationship among them with a view to fulfil the organizational goals.

Characteristics of Organizing

Based on the definitions, the following are the characteristic features of organizing:

1. Organizing is a *goal-directed activity*, i.e. the common purpose of organizing is the accomplishment of organizational goals and objectives.
2. Organizing is a *differentiating activity*. This is because it involves the identification and classification of activities into a variety of processes and activities for accomplishing the larger task (namely the goals) of the organization.
3. It is a *grouping activity* as organizing involves the grouping of activities into manageable units like department, teams, etc.
4. It is *assigning or delegating activity* as organizing involves the assignment of groups to different competent authorities (such as managers and supervisors) with necessary authority to oversee their performance.
5. Organizing is an *integrating activity* as it involves proper coordination of the efforts of various manageable units to achieve the organization’s overall purpose.
6. It is a *dynamic and constantly evolving activity* as organizing likely to change intermittently depending upon the significant changes in an organization’s environment.

Box 7.1
Flat and Flexible—RAL’s Organizational Structure

Whether big or small, each company must consider the way in which its organization is designed and structured. It should also determine the basic characteristics that its organizational structures should possess. These essential characteristics normally help organizations to operate effectively and efficiently and to grow continuously. A small organization, for instance, may need a simple organizational structure. As it grows in size and becomes more complex, the organizational structure too needs to grow and change. As such, the designing of an organizational structure is often considered as a continuous process. Radiohms Agencies Limited (RAL)—one of India's largest FMCG marketing companies—has the following characteristics in its organizational structure.

The chief characteristics of RAL are as follows: (i) it has a flat structure with fixed levels of reporting or increased responsiveness. This should also enable the organizational members to play enriching roles and diversify their skillsets, (ii) it has a dynamic and constantly evolving structure in tune with the fast and feverishly changing national and world business parameters and (iii) its structure clearly defines the role and relationships of organizational members, even while remaining flexible.[60]

Box 7.1 shows the characteristics of the organizational structure of an FMCG marketing company.

Importance of Organizing

Organizing is an important function of management that facilitates the implementation of planning. Managers use organizing function to make best use of the available resources and also to get things done through others in the organization. For instance, organizing enables managers to concentrate their physical and human resources in a unified way to convert their plans into reality. We shall now discuss how important the organizing function is to managers.

- **Facilitates goal accomplishment—**The outcome of an organizing function is the creation of a basic structure in the organization. This structure acts as a tool of management to realize the organizational goals and plans. It guides and regulates the deployment of resources by organizations for achieving their strategic goals.
- **Clarifies the work environment—**Organizing enables managers to determine clearly the tasks to be done, persons to whom these tasks are to be entrusted with and how these tasks are to be done. Organizing thus brings clarity to individuals, teams and departments about their tasks, authority and responsibility. Well-defined authority and responsibility enables the management to keep the work environment free of any job-related misunderstanding, tensions, and disturbances.
- **Enhances job specialization—**Organizing involves the division of larger task into several smaller tasks to be performed by departments and individuals on a continuous basis. When these tasks are repeatedly performed by the same departments, teams or individuals, it eventually helps them to become experts in their activities. This specialization is essential for improving the productivity of organizations and the efficiency of individuals.
- **Improves coordination—**Various activities of the organization are planned and carried out in different departments. There are further divisions and sub-divisions of operations within these departments depending on the nature of tasks involved. It is necessary to effectively coordinate the activities of the different departments to achieve the common goals. Requirements for effective coordination among departments, units and teams are better served through the organizing function. This is because the organizational structure creates authority heads for each designated task. These heads normally coordinate all the activities related to the tasks.[6]
- **Allows well-defined reporting relationship—**Organizing allows managers to develop reporting relationship among the organizational members in a systematic manner. This well-defined reporting relationship provides for orderly progression of information from bottom to top and top to bottom for decision making and decision implementation in an uninterrupted way.
- **Facilitates staffing—**Organizing enables the management to determine the staff requirements by indicating the nature and number of people required at different levels of the organization. It also helps organizations in determining the knowledge, skills and ability requirements of the employees to fill the roles designed into the structure. The outcome (staff vacancies) of the organizing process becomes the input for deciding the hiring plans of the organization.
- **Avoids duplication of efforts—**As a part of organizing, managers identify all activities necessary to accomplish the goals. These activities are then classified and assigned to different departments and teams. This process ensures that none of the tasks remains unassigned, wrongly assigned or assigned twice. Organizing thus helps organizations to make certain that there is no overlapping or duplication of efforts and initiatives.
- **Boosts employee satisfaction and motivation—**Organizations that have strong and consistent structure created through organizing normally make employees feel secure and motivated. Managers, through the organizing function, clearly define the job, authority and responsibility of each employee of the organization. Clarity in the organizational structure and work environment allows employees the opportunity to fulfil the organizational goals as well as their personal needs. Organizational structure is capable of boosting the

employee satisfaction and motivation. In contrast, when there are cracks in the structure, managements run the risk of losing their best employees due to lack of job satisfaction and motivation.

Principles of Organizing

Principles of organizing refer to the basic assumptions or beliefs underlying the organizing function. Most of these principles are drawn from the famous management thinker and practitioner Henri Fayol's fourteen principles of management. As illustrated in Figure 7.1, the important principles of organizing are as follows: (i) principle of chain of command, (ii) principle of unity of command, (iii) principle of unity of direction, (iv) principle of span of control, (v) principle of specialization, (vi) principle of coordination, (vii) principle of delegation, (viii) principle of flexibility, (xi) principle of parity of authority and responsibility. We shall now discuss them briefly here.

1. **Principle of chain of command**—The chain of command refers to the line of authority or reporting relationship that exists within an organization. The principle of chain of command states that the line of authority should be hierarchical and the authority flows from the top to the bottom. This principle also states that an unbroken and clear chain should connect all the employees with their higher authorities all the way to the highest levels. This principle usually favour a mechanistic structure with a centralized authority. It also ensures that all employees know whom they report to and also who reports to them.
2. **Principle of unity of command**—This principle states that every employee of the organization should report to one boss or superior only. They should also be answerable and accountable to that boss for all their activities. Similarly, this superior should be responsible for giving orders and information to employees, evaluate their performance and assist them in performing their duties well. Further, the superior must be responsible for encouraging and motivating the employees to do better. Again the superior should appreciate the employee's good performance or initiate corrective actions in the case of performance deficiency. The principle of unity of command aims at ensuring that there is: (i) no confusion among the employees about whom they should get orders from, (ii) no duplication or conflict in the orders passed down; for instance, an employee may get two conflicting messages from two bosses, (iii) mutual understanding and supportive relationship between the superior and the subordinate, (iv) an opportunity for the superior and the subordinate to be aware and appreciative of one another's strengths and weaknesses and (v) less opportunity for avoiding or shirking duties and responsibilities by the employees under the pretext of carrying out another boss's instruction.
3. **Principle of unity of direction**—The principle of unity of direction states that all the activities of the organization should be directed towards the accomplishment of the same objectives. It also advocates that all activities that have similar goals should be placed under a single supervisor.[7] Further, this principle insists that every

organization should have only one master plan or one set of overriding goals.[8] This principle is violated when, for instance, purchase department buys materials which are low cost and low quality while the overall commitment of the organization is to sell quality goods.

4. **Principle of span of control**—This principle deals with the number of employees a supervisor can effectively manage. This principle states that there is limit to the number of persons reporting to one supervisor. The more the number of employees supervised by a supervisor, the wider the span of control. Similarly, the fewer the number of employees supervised, the narrower the span of control. Usually, an organization with narrower spans will have comparatively more number of levels in its structure than the one with wider spans. Thus, the span of control is normally in proportion to the height of the organizational structure.[9]
5. **Principle of specialization**—This principle states that each employee should perform one leading function. According to this principle, when employees carry out limited number of tasks assigned to them, they eventually acquire specialization in those tasks. Division of labour is an important prerequisite for specialization. In this regard, all related functions are grouped together under one manager. For instance, all production-related activities can be grouped and assigned to the production department under the control of the production manager. In this way, the entire organization can be divided into different functional departments through the process called departmentalization. Specialization through departmentalization is the best way to use individuals and groups.[10] Job specialization is discussed in detail in the later part of this chapter.
6. **Principle of coordination**—This principle states that the organizational resources and activities should be coordinated through collaborative relationships. Combining and correlating all the organizational activities is the essence of coordination. The principle of coordination aims at ensuring that different departments, teams and individuals of the organization work collectively for the common purpose. Normally, the degree of coordination between various tasks depends on their interdependence. The greater the interdependence between departments, the greater the coordination required.
7. **Principle of delegation**—Delegation is the process of allocating authority and responsibility for the goal achievement of an organization. Delegation of authority means the downward transfer of the right to act, to decide and to fulfil the job responsibilities. The purpose of delegation is to get the work done more efficiently by another. The principle of delegation assumes that organizational tasks will be distributed to members according to their skills, knowledge, experience, training and other relevant qualities.
8. **Principle of flexibility**—Flexibility means the adaptability to changes in an environment. The principle of flexibility insists that some exceptions to rule must be permitted. This is important because of the uncertain and unpredictable nature of the organizational environment. Therefore, organizational structure must be sufficiently flexible to accept the changes in its internal and external environments. This principle also states that the factors affecting the flexibility of the organization like red tape, excessive control and burdensome procedures must be eliminated. At the same time, organizations cannot afford flexibility by sacrificing stability altogether. They need to strike a balance between flexibility and stability as reasonable stability is also equally important for accomplishing the long-term goals of the organization. Box 7.2 discusses the organizing principles of HUL.

9. **Principle of parity of authority and responsibility**—The principle of parity states that the authority delegated to employees should equal the responsibility entrusted with them. This is necessary to get the work done through them without any job dissatisfaction and frustration. In the absence of sufficient authority, employees cannot fulfil their job responsibility. At the same time, they may try to misuse their authority without corresponding responsibility.

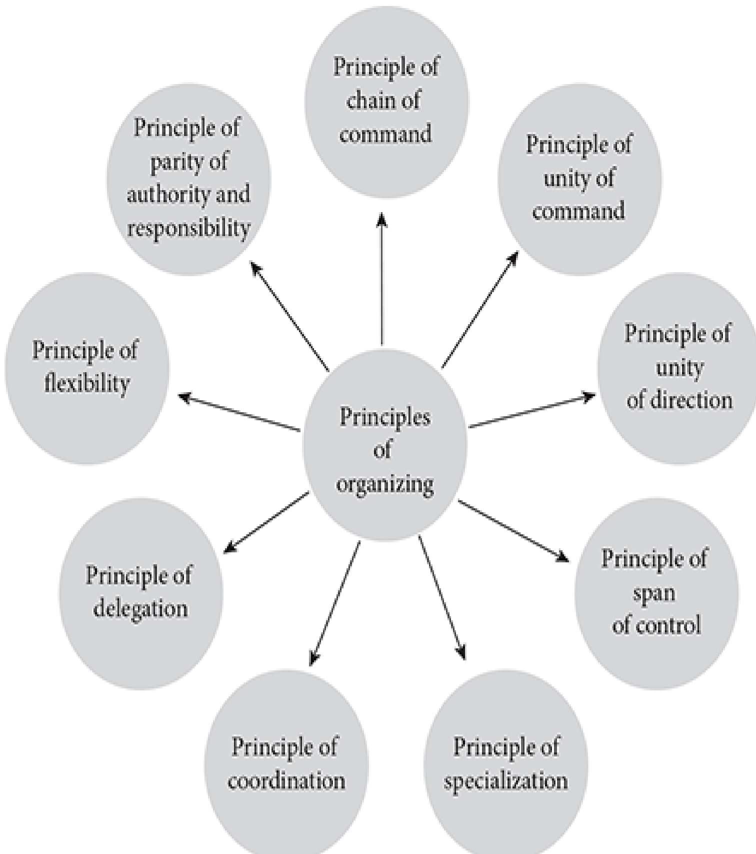

Figure 7.1
The Different Principles of Organizing

These principles of organizing are important guidelines for managers at every stage of the organizing process. They can guide them effectively when they have to make decisions relating to organizing functions.

Box 7.2
Principle of Organizing—The HUL Approach

The management approach towards the organizing function is normally guided by more than one principle. Managements look to achieve a precise combination of principles that facilitate the smooth conduct of the business activities and effective accomplishment of organizational goals. The approach of Hindustan Unilever Limited (HUL)—India's largest fast-moving consumer goods company—towards organizing presents an interesting case.

The fundamental principle determining the organizational structure of HUL is to empower the managers across the company's nationwide operations and infuse speed and flexibility in its decision making and implementation processes. This company also considers transparency and accountability in decision making and execution as the two basic tenets of its corporate governance. All the activities of HUL including its organizing function are driven by an aspiration to serve consumers in a unique and effective way.[61]

The Process of Organizing

Organizing process is vital for the organizations to achieve their goals and objectives. The primary purpose of organizing is to make possible an orderly use of the organizational resources. The organizing process aims at converting the plans into reality through the planned and purposeful deployment of physical and human resources within the decision-making framework called organizational structure.[11] The end result of this organizing process is the creation of an organization. Organizations created through efficient organizing process can have improved capabilities, superior productivity and performance, and employee satisfaction and motivation. The basic steps in the organizing process, as shown in Figure 7.2, are generally universal in nature.

1. **Recognizing the organization's goals, plans and operations**—The organizing process usually begins as soon as the goals and workable plans are formulated. Plans guide the organizing process by influencing the decisions regarding the activities to be carried out

for goal accomplishment. It is therefore necessary for the managers to first examine and recognize the nature and duration of the organizational goals and plans as a part of the organizing process. Plans and goals are dynamic in nature, managers must therefore review them from time-to-time to decide whether any changes in the organizational structure or activities are required.

2. **Deciding the goal-related activities**—Managers must determine the specific activities required for achieving the plans and goals of the organization. They can prepare a list of all the activities or tasks that need to be carried out for plan execution. At this stage, managers usually break down a potentially complex job into several simpler tasks or activities.
3. **Grouping of work activities**—Once managers know what specific tasks or activities are to be done, they classify and group these activities into workable units. They normally group these activities into a logical pattern or structure.[12] Such grouping of activities is known as departmentalization. Usually managers adopt the principle of functional similarity (similarity of activities) for classification and grouping activities. For instance, grouping of activities can be done on the basis of functions (marketing, production, etc.), products, customers, geographical locations, etc.
4. **Assigning activities and authority to specific positions**—Once the activities necessary for goal accomplishment are identified, classified and grouped, managers allocate these work activities to specific individuals. They should also assign the required resources to the people for successful completion of the work. Appropriate authority must be delegated to the employees to enable them to complete their tasks. Management generally applies the principle of functional definition for assigning activities and authority to specific positions. This principle insists that the type and quantity of authority to be delegated to the individuals should be in proportion to the nature and significance of the activities assigned to them.[13]
5. **Coordinating the divergent work activities**—Managers should coordinate the activities of different individuals, groups and departments within the organization. Normally, managers are expected to decide between vertical and horizontal relationships for various levels within the organizational structure.

   A vertically structured relationship indicates the decision-making hierarchy of the organization. This kind of structuring normally leads to establishment of different levels in the organizational structure from the bottom to the top of the organization. It also provides details of who should report to whom in the organization and also within in the various teams, departments and divisions.

   A horizontally structured relationship indicates the working relationship prevailing among the different departments. It also indicates the span of control for different managers and supervisors of the organization. The organizational structure becomes complete once the various activities of the organization are coordinated and directed towards goal accomplishment. At this stage, managers can use organizational charts to develop the diagrams of the relationships.

6. **Evaluating the outcome of organizing process**—Organizational goals and plans are dynamic in nature, organizational structure should therefore be flexible enough to accommodate the changes in the goals and plans. It is hence essential for managers to periodically evaluate the results of the organizing process to know the effectiveness of organizing functions in achieving the stated goals and mission. Based on the results of such evaluation, managers can

modify the existing organizing process and organizational structure. They can also introduce a new organizing process to replace the old ones for developing vibrant organizational structures. Box 7.3 outlines the structure transformation initiatives of a telecommunications company.

It should be clear by now that the organizing process helps managers to establish working relationship among the members necessary for goal accomplishment. Managers may choose a specific organization type for establishing relationship among the members of choice making is known as organizational design.

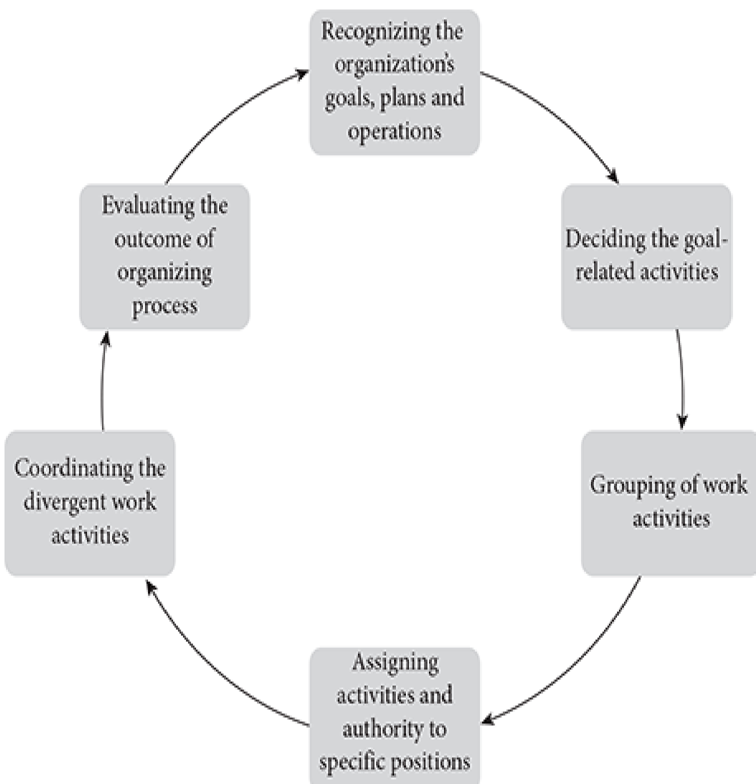

Figure 7.2
Steps in the Process of Organizing

Organizational Design

The first major task of managers engaged in organizing is the development of an organizational design. Organizational design involves the creation of a new organizational structure or modification of an existing organizational structure. Designing organizational structure is not a one-time event for an organization.[14] It is actually a formal and guided process of integrating the activities and resources of an organization on a continuous basis. Organizational design process helps managers to solve two important but complementary problems of organizations. They are: (i) how to divide a big task (organizational goals) of the whole organization into smaller tasks or sub-units and (ii) how to coordinate these smaller tasks efficiently to accomplish the bigger task.[15] Organizational design involves multidimensional approach as it deals with human components and structural components. The human component normally includes, among others, the people, processes, rewards, coordination and control. The structural components include organizational objectives, goals, plans, strategies and structure. Management normally adopts a top-down approach to the organizational design process by working from the top to the bottom.

Box 7.3
Customer-centric Structure—Airtel's Transformation

Managements generally prefer organizational structures that enable them to proactively embrace change in a timely manner to make the best use of opportunities in their environment. The new organizational structure introduced by Bharti Airtel Limited—a leading integrated telecommunications company—is a case in point.

Bharti Airtel's business operations have been structured based on its technologies into three strategic business units, i.e., mobile services, Airtel telemedia services and enterprise services. However, it has introduced a new organizational structure in 2011 for its business operations in India and South Asia. The guiding factor for Airtel in shaping its organizational structure has changed from "technology" to " customer." The new customer-centric structure is aimed at achieving greater business and functional synergies, offering a common interface to customers, and creating a de-layered and more agile organization. Airtel's transformation from its conventional tall structure to the flat structure will also facilitate enhanced employee empowerment, job autonomy and employee engagement. Further, this new “business to customer” (B2C) and ”business to business” (B2B) based structure is aimed at providing enhanced business efficiency and employee value to the company.[62]

While designing the organizational structure, managers normally consider the nature of goals, strategies, people, environment, technology and activities of their organization. Effective alignment of structure, process, people, strategy, metrics and rewards with the goals and plans of the organization is the primary aim of any organizational design. The key elements that influence the decisions relating to organizational design are job specializations, job grouping (known as departmentalization), reporting relationships among positions (known as chain of command and span of management), distribution of authority (centralization and decentralization) and coordination.

Definitions of Organizational Design

The primary focus of definitions on organizational design is on the creation or modification of organizational structure. We shall now look at a few definitions of organizational design.

“Organizational design is the process of assessing an organization’s strategy and environmental demands and then determining the appropriate organizational structures.” —Hitt.[16]

“Organizational design is the process by which managers select and manage aspects of structure and culture so that an organization can control the activities necessary to achieve its goals.” —Jones.[17]

“Organizational design is the determination of the organizational structure that is most appropriate for the strategy, people, technology, and tasks of the organization.” —James Stoner.[18]

"Organizational design is the design of the process and people systems to support organizational structure." — Richard M. Burton.[19]

The ultimate aim of organizational design is to produce a structure that fits the strategic plans of the organization. Organizations may face disturbances in the event of mismatch between their goals and structure.

Organizational Structure

Organizational design involves the designing of organizational structure by managers for grouping the activities and then allocating them to different units, departments and teams. As discussed earlier, once these activities are assigned, formal authority and responsibility relationship is established among these departments and teams. To make the organizational structure viable, authority is delegated throughout the organization and a mechanism is established for coordinating diverse organizational activities.

Organizational structure is a powerful instrument for reaching organizational goals and objectives. In this regard, managers must ensure a perfect fit between the organizational plans and organizational structure to achieve success. Generally, the goals and size of organizations determine the nature and types of organizational structures. For instance, large organizations may keep extensive and complicated organizational structure. In contrast, small organizations may have comparatively simple and straightforward structure. In any case, while designing or modifying a structure, managers must have thorough knowledge of the existing environment, technology and system of social relationships among members. Generally, organizational structure can be classified into tall structure and flat structure based on the number of subordinates managed by each manager called span of management (discussed later in this chapter).

Definitions of Organizational Structure

Managerial experts explain organizational structure as a framework for gathering, dividing and allotting resources for goal accomplishment. We shall now look at a few definitions of organizational structure.

"Organizational structure is the framework in which the organization defines how tasks are divided, resources are deployed and departments are coordinated." —Richard L. Daft.[20]

"Organizational structure is defined as the sum of the ways an organization divides its labour into distinct tasks and then coordinates them." —Hitt.[21]

Types of Organizations

Based on how authority is distributed, decisions are made and tasks are performed, organizations can be classified into three fundamental types. They are: (i) line organization, (ii) line–staff organization and (iii) committee organization. Even though several other forms of organizations may exist, they are only the variation or combination of these three basic forms. We shall now discuss these three forms.

Line Organization

Line organization is the oldest and simplest method of organization. This type of organization is found to be suitable mostly for smaller firms. However, the true form of line organization mostly exists in military systems. Line organizations are also called 'doing' organizations where all activities from the production to marketing of goods are controlled by the managers/owners. In the case of companies with line authority, managers maintain direct control over all the activities carried out in their respective departments. They are also directly responsible for achieving the organizational goals and plans.

In line organization, a well-defined line of authority and communication flows downwards from the top-level managers to the workers at the bottom through various hierarchical levels. As such, authority will be greatest at the top level and then gets gradually reduced through each successive level in the hierarchy. Line organizations are ideal for slow-paced and stable organizations, where moderately educated people are employed in significant numbers. The authority of managers in line organization is primarily legitimate and formal. Figure 7.3 depicts the line organizational structure. We shall now discuss the merits and limitations of line organizations.

Merits of line organization—The important merits of a line organization are as follows:

1. It is a simple and "easy to understand" form of organization without any complex organizational structure or chain of command.
2. It encourages managers to act independently and improve their decision-making ability.
3. It facilitates an organization to make managers wholly accountable for all their decisions and actions. Thus, they will be more careful while exercising their authority and doing their duties.
4. As the whole department operates under the direct control of one manager, it is easy to coordinate the activities within his area of operation. Managers can also ensure better discipline among the employees as they report to an undivided authority.
5. As too many persons are not involved in the decision-making process, managers in line organizations can make faster and timely decisions in unstable environment. They can thus make the best use of available opportunities to improve organizational interest.
6. This structure can also be cost-effective as there will be less time and resources spent on meetings and consultations. The cost of staffing can also be less as there would be fewer or no advisors to assist the managers of line organization.

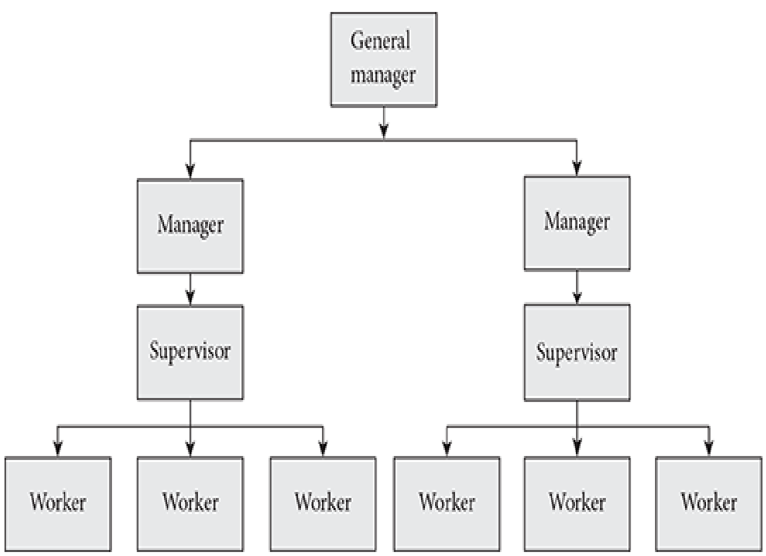

Figure 7.3
Line Organizational Structure

Limitations of line organization—Line organizations have several weaknesses too. They are as follows:

1. There may be less technical depth and specialization in the decisions of managers in line organizations. This is because managers do not normally get any specialized advice from experts while making decisions. So, there are more chances that managers make arbitrary, hasty and unbalanced decisions.
2. The Line organizations place greater emphasis on one-way top to bottom communication. The job involvement and satisfaction of employees at lower levels can be less in these organizations. Employees at the lower levels may not get adequate opportunities to communicate their complaints, suggestions and feedback to the higher authorities.
3. When absolute authority is given to managers, they may try to misuse their position and authority which may harm the organizational interest. This method may encourage the employees to be passive and too dependent on their managers. At the same time, it may encourage the managers to be more autocratic and impulsive in their approach.
4. When there is overreliance on line managers for administration and decision making, organizations may not be able to develop the administrative, leadership and decision-making skills of non-managerial personnel in the organization. This can affect the succession planning and leadership development programmes of the organization.
5. Effective coordination of activities across departments or divisions may be difficult in this form of organization. This is because line managers without any centralized advice may focus more on their departmental issues and interest. They may fail to consider the needs and interest of other departments adequately while making decisions.
6. The job of line managers may become tiring and exhaustive due to heavy work pressure. This is because line managers are expected to plan, implement, monitor and control the organizational activities all by themselves.

To improve the operational efficiency of line organizations, a modified version of line organization, namely, line–staff organization was introduced. Let us now discuss line–staff organizations.

Line−Staff Organization

A line–staff organization is one in which the line manager gets advice and assistance from the staff manager (also called advisor). This kind of organization includes both line and staff positions in its structure. Large and more complex organizations normally prefer line–staff setup to improve the quality of the managerial decisions.

The role of line authority in these organizations is to make decisions and issue directives necessary for goal accomplishment. The role of staff advisors is to offer advice to the line authorities when needed. The staff departments in these organizations normally provide expert advice and other specialized support services to the line managers. This advice should enable line managers to make sensible, balanced and technically superior decisions. Figure 7.4 shows the line–staff organizational structure.

Thus, the major function of staff department is to collect or create necessary information, analyse them carefully and present them in the form of advice to aid line managers in goal accomplishment. However, they cannot compel the line managers to accept their advice. Line managers have the right to take or leave the advice of the staff managers. The staff function mostly remains a behind-the-scene activity in these organizations. This is because the staff managers do not normally have any authority over the staff of line departments. The staff advisors do not have any legitimate or formal authority over line departments.[22] The core activities in organizations like production, marketing and finance are normally carried out by line managers. However, they can seek the advice of staff departments like human resources management, legal counselling and public relations, whenever necessary. We shall now do an evaluation of line–staff organizations.

Benefits of line–staff organizations —Let us first see the important benefits of line–staff organizations.

- This method enables the line managers to make well-informed and technically superior decisions with the aid of specialized staff advisors. This method is capable of combining the unique features of line departments like faster decisions, and direct communication with staff departments for specialized advice.
- Since thinking and acting are largely separated in line–staff organizations, line managers can allot more time for administrative works. This is possible because they can leave activities like problems analysis, data gathering, information processing and decision making to their staff advisors.
- This method eventually enables line managers to learn the techniques of effective decision making through consultations with staff experts. In this way, it provides training to the line manager in decision-making aspects.
- Due to the involvement of staff advisors, decision-making processes are now more methodical and disciplined. This should reduce the chances of decision failures as line managers are prevented from making any arbitrary and hasty decisions.
- Line–staff organization can help the management in achieving enhanced productivity, performance and profitability of the organization. This is possible as better and more accurate decisions mean reduced risk, better resource utilization and less wastage, and improved job satisfaction for managers and subordinates.

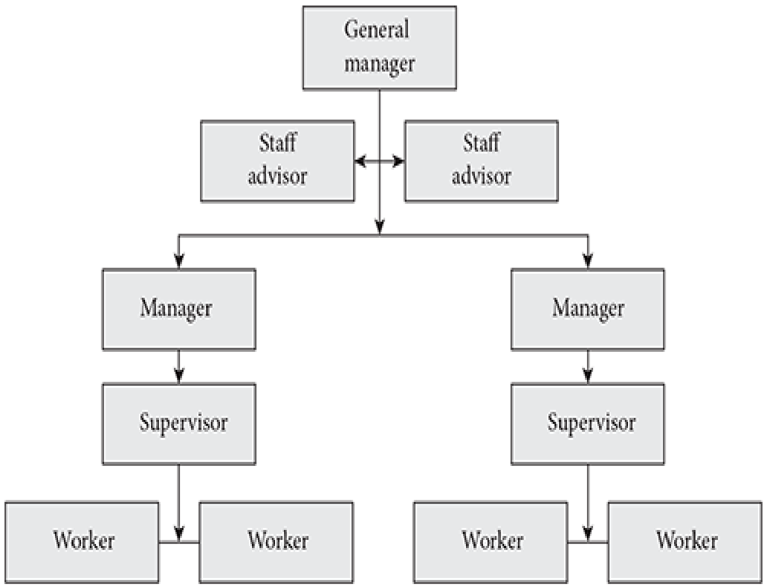

Figure 7.4
Line–staff Organizational Structure

Limitations of line–staff organizations—Let us now discuss the limitations of line–staff organizations.

- Even if authorities are clearly defined, the possibility of conflict between line managers and staff advisors cannot be completely ruled out. This is because their understanding of the problem itself can be different due to their dissimilar backgrounds and different approaches. For instance, labour disturbances in the production department can be viewed differently by the production manager, a line authority, and the HR manager, a staff advisor. Production managers may view it as a wilful disturbance of production schedule while HR may consider it as an outcome of strained labour–management relations. Ego clashes between the line manager and staff advisor can also cause conflicts in their relations, especially when latter's advice is ignored.
- This method can push up the cost of administration as organizations have to pay for their specialist staff advisors in addition to the usual staff cost of line managers.
- Line managers blindly and indiscriminately following all the advice of the staff advisors are a distinct possibility in these organizations. This can happen when line managers become too dependent on the staff advisors.
- Since staff advisors often have little or no exposure to line managers' tasks, responsibilities and difficulties, their advice may lack practicality.
- Since line managers alone get the recognition and appreciation for best decisions and efficient administration, staff managers may lack proper motivation to perform their job well.

Committee Organization

When groups of individuals are given the authority and responsibility necessary for performing certain tasks or for making decisions on certain matters, it is called a committee organization. This type of organization is often viewed as another form of line–staff organization. In committee organizations, certain specific tasks will be performed not by an individual manager but by a group of individuals. Figure 7.5 shows the committee type of organizational structure.

The primary purpose of committee organizations is to supplement line–staff functions.[23] These committees can exist either permanently or temporarily in organizations. Permanent committees perform the job of staff advisor by providing specialized advice to managers almost on a recurring basis. In contrast, temporary committees are formed for specific purposes and get dissolved when these purposes are fulfilled. Development of new products, fixation of revised pay for employees and identification of the cause of the declining sales are a few reasons for which committees can be formed. We shall now discuss the merits of committee organizations.

Merits of committee organization—Some of the merits of committee organizations are as follows:

- Recommendations of committees are more practical and acceptable because their decisions reflect the views of members with varied expertise and interests. This is possible as committee members are usually drawn from different functional areas like production, marketing, HR, etc.
- Committees act as an important forum for the organizational members to share their views, ideas and suggestions either directly or through their representatives. These committees are thus capable of improving employee motivation as they can find their views and opinions included in the recommendations of the committees.

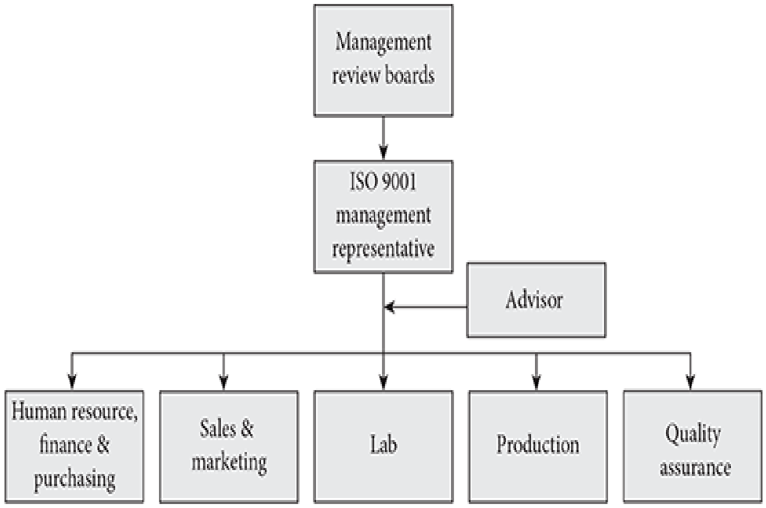

Figure 7.5
Committee Organizational Structure

Limitations of committee organization—The important weaknesses of committee organizations are as follows:

- Decision making is normally a slow and time-consuming process in committee organizations. As such, committees are not usually effective when decisions are to be made quickly without any waste of time.
- In committee organizations, members may prefer a "mid-path" in decision making as a part of compromise to settle conflicting interest of the members. This may prevent the committees from choosing the best solutions to the organizational problems.
- Committees may push up the cost of administration as it may involve additional expenditures for organizations. For instance, managements have to bear the cost of committee meetings, time loss and work disturbances when members attend these meetings.
- Status and designations of the individual members may influence the outcome of group deliberations in committee organizations. Powerful members may attempt to put pressure on other members to get their views and decisions accepted. This may affect the sanctity and purpose of the decision making in committee organizations.
- The authority to make decisions is collectively exercised. It is therefore difficult to fix individual responsibility for decision failures. This may make members reckless and adventurous in making decisions.

In addition to the above, management can also opt for one more form of organization called matrix organizations. We shall now discuss the features of this organization.

Matrix Organization

Matrix organization is usually formed when employees from different functional departments are required collectively for the execution of a project. The primary purpose of matrix organizations is to get the advantages and eliminate the disadvantages of other forms of organizations.[24] Matrix organization usually has a grid form of organizational structure, where employees from different departments are linked. Figure 7.6 shows the matrix organizational structure.

The two-boss structure and dual reporting relationship are the essence of any matrix organization. In matrix organizations, each member should report to the manager of the cross-functional project as well as the manager of the functional department that deputed them to the project. For instance, when an executive of the fabrication department of an engineering unit is deputed to a large project under the control of another manager, he would report to both the fabrication department manager and the project manager. Matrix organizations facilitate the horizontal flow of skills and information within an organization. We shall now discuss the merits and limitations of matrix organizations.

Merits of matrix organizations—The merits of matrix organizations are as follows:

- They facilitate the effective integration of individuals and groups from different functional departments as members of one single matrix organization. This can encourage the members to work more unitedly and purposefully towards project goal accomplishment.
- These organizations are capable of increasing the effectiveness of communication system, conflict resolution process and coordination among members. It can also enhance the team spirit, commitment and involvement of the members.
- The cross-functional nature of matrix organizations enables every member to understand the needs and difficulties of other functional group members. This makes the members more empathetic and sensitive towards the problems of other departments even after they return to their own functional departments.

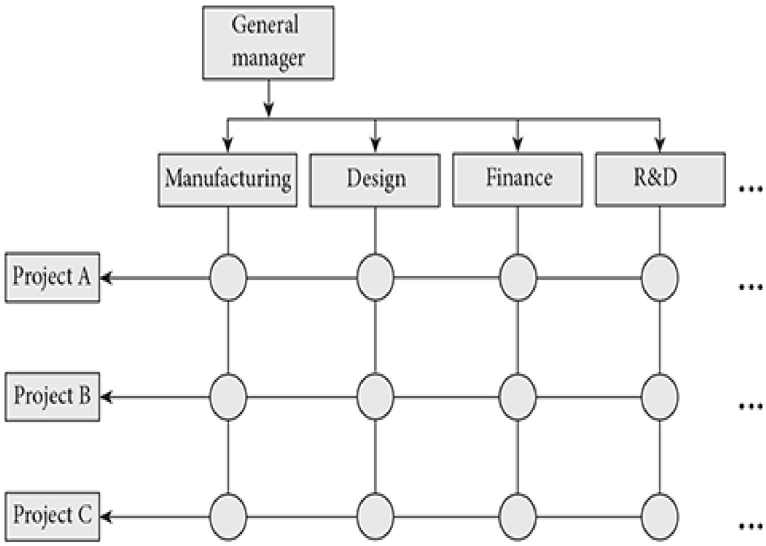

Figure 7.6
Matrix Organizational Structure

Limitations of matrix organizations—Matrix organizations suffer from a few limitations. They are as follows:

- The scope for conflict between the functional managers and project managers are high in matrix organizations, especially when the roles are not well defined
- The two-boss system and divided authority can create stress for the members of project organizations. When conflicting orders are given by the functional boss and project boss, members may feel anxious and confused in deciding whose orders are to be carried out immediately.
- It is difficult to design, develop and understand the structure of matrix organizations as they are often vague and complex.
- The cost of administration can go up when separate structure and organizations are created to manage projects. Establishment of a matrix organization may call for recruitment of managers, development of new infrastructure and fixations of higher remuneration for deputed staff. The result of all these would be high administration cost.

Organizational structures are normally written in the form of a chart for defining and outlining the role and responsibility of the organizational members.

Organizational Chart

Organizational chart is a tool used by the management for describing the organizational relationship. It is a visual representation of the organization presented in a diagrammatic form. This chart serves different purposes for the organization. For instance, it shows the major functions performed by the department, nature of relationship of functions or departments, channels of supervision and communication, line of authority, titles of positions or jobs located within the departments or units.[25] We shall now look at a few definitions of the term organizational chart.

Definitions of Organizational Chart

Most definitions of organization chart describe the visual representation of the organizational structure. We shall now look at a couple of these definitions.

"Organizational chart is defined as the visual representation of the whole set of underlying activities and processes in an organization." —Richard L. Daft.[26]

"The visual representation of an organization's structure is known as organizational chart." —Stephen Robbins.[27]

Organizational chart assists managers in different ways. In employee orientation programmes, it can be used by managers to show where each job is located in the organizational structure and also its relationship with other jobs in the department. Organizational chart can also depict the relationship of one department with the others and also to the whole organization. It also maps the flow of authority lines of different managers within an organization. It is an essential and effective tool for managerial audit at the time of auditing the management practices. Organizational chart enables the management to spot and recognize, discrepancies and inconsistencies in the organizational structure with ease.

However, these charts will be of little use if they are not updated periodically. Further, organizational charts recognize only the formal lines of authority and communication. More often, it ignores the informal channels of communications. Organizational charts can only supplement, and not substitute any organizational manual in employee orientation programmes.

Elements of Organizational Design and Structure

While designing the organizational structure, managers normally consider six key elements. These elements are: (i) division of labour and job specialization, (ii) departmentalization, (iii) chain of command, (iv) span of management, (v) hierarchy of authority—centralization *vs*. decentralization and (vi) formalization. Organizing thus involves decisions by managers regarding each of these key elements. We shall now discuss these elements in detail.

Division of Labour or Job Specialization

When the total workload is divided into different activities or tasks, it is called division of labour. In other words, the breakdown of jobs into narrow and repetitive tasks is known as division of labour.[28] Through division of labour, individual employees can gain job specialization by performing a part of an activity rather than the whole activity. This job specialization enables individuals to perform their jobs attentively, comfortably and effectively. An organization may opt for any one of the three different degrees of specialization, namely, low, moderate or high specialization. Job specialization is often seen as a normal extension of organizational growth.[29] Let us now discuss the benefits of job specialization.

Benefits of job specialization—Job specialization offers several benefits to organizations. They are as follows:

- Employees gain expertise and competency when they perform simple and small tasks repeatedly.
- Job specialization helps in reducing the training requirements of the employees as they perform single or specific tasks only.
- It simplifies the selection process as employees are often required to have specialization in any one area only.
- It reduces the transfer time loss between tasks as the employees rarely perform different tasks. Transfer time loss refers to the time gap between the end of one task and the beginning of another task.
- It helps organizations to develop task-specific and specialized equipment to assist with the job since the tasks are clearly and narrowly defined.[30]
- It enables supervisors to manage relatively large number of employees as they are well-versed with their job and seek little assistance from their supervisors.
- It enables managers to set exact performance standards for the employees and facilitates faster detection of job-specific performance problems.
- It is easier for managers to find replacements for the employees who perform single and specialized task as the substitutes can be trained

within a short time and at less cost.

Limitations of job specialization—Though job specialization can provide multiple benefits, it also causes certain disadvantages to the organization. They are as follows:

- Employees performing specialized jobs may become bored and disillusioned with their jobs as the jobs do not normally offer any challenge or inspiration. Job boredom may lead to high level of absenteeism, attrition and other productivity problems.
- Overconfidence arising out of job specialization may tempt employees to compromise their safety, resulting in accidents and injuries.
- Lack of intrinsic satisfaction (satisfaction obtained from the performance of the job) may affect the quality of work life of employees. It may also make it difficult for them to strike proper balance between the work and family.

Departmentalization

An organization does not feel the need for division of its activities into different units as long as it remains small, simple and straightforward. This is because the owner-cum-manager can personally supervise the activities of all his/her employees. However, such personalized supervision may not be possible when the organization reaches a certain size, volume of trade or geographical dispersion. At this stage, organizational activities are divided (departmentalized) and assigned to managers who would look after these activities on behalf of the owners. In academic institutions, for instance, the need for departmentalization is considered as a function of growth in size, specialization of knowledge and faculties desired for autonomy.[31]

Since the activities cannot be randomly grouped, organizations follow certain norms, bases or plans. The grouping of organizational activities based on these norms and processes is called departmentalization. Adopting any of the logical bases, managers can classify and group activities into related, manageable work units. The ultimate purpose of any such grouping is the effective accomplishment of organizational goals and plans. Groupings can be done by managers on the basis of functions, geographical locations, products or service types, process used for manufacturing or customer categories. Sales people working together in the sales department or production people working together in the production department are examples of departmentalization. Organizations may also create hybrid organizational structures through the combination of various departmentalization types.[32]

Definitions of Departmentalization

The primary focus of departmentalization is on the grouping of organizational activities. Let us now look at a few definitions of departmentalization.

"Departmentalization may be defined as the process by which a firm is divided by combining jobs in accordance with shared characteristics."—Jerry W. Gilley.[33]

"Departmentalization is the process of grouping jobs according to some logical arrangement."—Ricky Griffin.[34]

"The grouping into departments of work activities that are similar and logically connected is called departmentalization."—James stoner.[35]

Departmentalization thus refers to the grouping of organizational activities according to certain logical bases for organizational goal accomplishment. Let us now discuss the purpose of departmentalization as derived from these definitions.

Purpose of Departmentalization

The major purposes of departmentalization are to:

1. Group the individuals with common background and shared characteristics.
2. Define the relationship of positions within an organization.
3. Establish formal lines of authority and fix clear responsibility and accountability.
4. Provide job specialization to organizational members.
5. Increase the economies of scale (cost reduction through enhanced production).

When management achieves success in forming effective departments, it can expect desired improvements in: (a) organizational performance and productivity, (b) managerial communication, (c) employee commitment, involvement and motivation and (d) the quality of decisions.[36]

Having seen the purposes of departmentalization, we shall now discuss the common bases for departmentalization.

Bases for Departmentalization

As a part of organizing function, activities of an organization can be divided and grouped on any one of the bases discussed here.

Functional departmentalization—When departments are formed on the basis of the specialized activities or functions performed by an organization, it is called functional departmentalization. Organizational functions like finance, production, purchasing, human resource and marketing form the basis for this type of departments. Organizational functions are different from the managerial functions such as planning and organizing. Functional departments are the traditional and most common form of departmentalization. Moreover, the functional approach to departmentalization is considered to be the logical way to organize departments.[37] Functional departments are interdependent in nature and frequently interact with one another to accomplish organizational goals. Members of each functional department normally report to the functional managers of the departments. Smaller organizations generally prefer functional forms of departments. We shall now do an evaluation of functional departments.

Merits of functional departments—As a traditional form of department, functional departments offer several benefits to organizations. They are as follows:

- In functional departments same or similar activities are performed by the members, it is therefore easier for the functional managers to supervise the activities of their departments. For instance, a manager with market expertise manages the marketing department and so on.
- Functional departmentalization simplifies the training procedure and also reduces the cost of training. This is because departmental members are required to have relatively narrow sets of skills only.
- It facilitates in-depth specialization as employees perform same or similar activities on a repetitive basis.
- Effective coordination of the activities within the department is made simple and possible.
- Functional managers can effectively guide and motivate their department members as all of them have a similar technical

background. Managers are usually well aware of the nature and requirements of each job and also of the skills, knowledge and orientation of their employees.

Limitations of functional departments—Functional departments also have some major limitations. They are as follows:

- As functional managers and members usually have specialized knowledge and narrow perspective, it may be difficult for them to understand and appreciate the problems of other functional departments. They may also overlook the organizational priorities and goals by giving undue importance for departmental matters, interests and priorities.
- Decision making is likely to be slower in organizations with functional departments. This is because inter-departmental coordination may not be effective due to the homogenous nature of the individual departments.
- Fixation of responsibility and accountability for organizational results may be difficult. This is because the individual functional department cannot be held directly responsible for any failed organizational mission. For instance, it is tough to decide whether a new product failed due to marketing factors, production factors or finance factors.

Product departmentalization—When organizational activities are classified and grouped on the basis of the product or services sold, it is called product departmentalization. In this kind of departmentalization, all activities connected with each product, including its production, marketing, etc., are grouped together under one department. In this way, an organization will have a separate department for each of its products. An organization may prefer product departmentalization when its products require distinct production strategies, marketing strategies, dedicated distribution channels, etc. The top managers of the product departmentalization normally have complete autonomy over the operations. Large, diversified companies often adopt product departmentalization for grouping their activities.[38] Box 7.4 provides information on the production departmentalization of the Michelin Group.

Box 7.4
Many Facets of Michelin Group's Organizational Structure

Even though managements may use different bases for creating departments at different levels, the basis for departmentalization at the highest level usually reveals the direction, dimensions and priorities of organizations. In this regard, the organizational structure of Michelin—the world's leading tyre manufacturer—is worth mentioning here.

The Michelin Group is organized into product lines to gain superior understanding of its market condition and customer needs and preferences. It has eight product line departments each with its own marketing, development, production and sales resources. To support its product lines, it has eight geographical zones, 13 group departments in charge of support services and four performance departments like logistics and supply chain performance departments. Through its organizational structure, Michelin looks to increase responsiveness while dealing with customers, to expedite decision making by decentralizing responsibilities, to enhance the group's profitability and performance, to strength research to achieve lead-in technological advances over their competitors and to accelerate growth by achieving better access to new markets.[63]

Merits of product departmentalization—Product departmentalization brings in many benefits to organizations. They are as follows:

- Decisions can be made quickly as the managers in charge of these departments deal with all aspects of products, such as production, marketing, financing, etc.
- It is easier to integrate and coordinate all the activities or functions connected with a product or service.
- Product departmentalization makes it possible for the management to fix accountability for the performance of each department directly, objectively and accurately.
- It facilitates the departments to remain in close touch with the customers and also keep their needs and requirements in constant focus.
- It enables the organization to obtain specialization in specific products or services.
- It helps organizations to develop managers in a comprehensive manner in all aspects of the organization like production, marketing,

etc. This in turn assists the management in succession planning, especially for top managerial positions.

Limitation of product departmentalization—This form of departmentalization has some limitations. They are as follows:

- Since each department performs the same set of functions, such as market research and financial analysis, it often leads to duplication of functions and resources. It eventually leads to increased administrative cost for the organization.
- Managers may view their products as more important even to the exclusion of other products from their organization. In this process, they may also compromise the overall interest of the organization.

Customer departmentalization—When the organizational activities are grouped on the basis of the type of customers served, it is called customer or market departmentalization. The primary purpose of customer departmentalization is to ensure that organizations respond to the requirements of a specific customer or a group of customers efficiently. It also enables organizations to have continuous interaction with their customers. For instance, banking companies normally use customer departmentalization to deal with the needs of their different class of customers such as business people, salaried people, agriculturists, etc. It has some strengths and weaknesses. They are as follows:

Merits of customer departmentalization—Customer departmentalization can assist an organization in several ways. Some of them are as follows:

- Customer departmentalization helps organizations to better understand their customers so that they can be more effectively segmented and targeted by their products or services. This should enable organizations to create best possible products or services necessary for increasing customer satisfaction, loyalty and organizational revenues.
- It enables organizations to provide specialized skills to the staff to deal effectively with the customers assigned to them. It thus enables organizations to provide personalized services to valuable customers through specialized staff.
- The customer-centric approach to departmentalization implies that the customers are central to the organization. This approach keeps the focus of the organizations on the customer requirements rather than on the products or functions.

Limitations of customer departmentalization—This method has some weaknesses and they are as follows:

- Customer departmentalization requires organizations to have more staff to look after the requirements of different classes of customers. This can obviously push up the administrative cost of these organizations.
- Management may find it difficult to achieve effective coordination across different customer departments of the organization.
- In customer departments, employees may take decisions that delight the customers immediately without ascertaining the long term effects of such decisions. For instance, trade discounts, special schemes and other offers can make the customers happy but have the potential to affect the organizational interest in the long run.
- Similar to product departmentalization, customer departmentalization can also lead to duplication of functions and resources affecting the profitability of the organization.

Geographical Departmentalization

When the activities of an organization are grouped on the basis of the geographical territory, it is called geographical departmentalization. The purpose of this departmentalization is to locate the operations of an organization, such as the sales office, production plants and after-sales service centres, close to the market area. These departments are responsible for carrying out the activities in the assigned geographical areas. It enables organizations to provide local focus to their operations. For instance, Life Insurance Corporation of India (LIC) has adopted geographical departmentalization for grouping its activities. It has a central office, eight zonal offices, 105 divisional offices and 2048 branch offices across the country to serve different regions. Transportation companies too normally prefer geographical departmentalization when they operate in several market areas. Similarly, global companies that market their products or service across nations often adopt geographical departmentalization. Let us now look at the merits and limitation of this method.

Merits of geographical departmentalization— Departmentalization based on geography can offer several benefits. These benefits are as follows:

- Geographical departmentalization enables organizations to respond quickly and effectively to the customer needs and requirements without needless loss of time.
- It helps organizations to be aware of the changes in the customer needs, tastes, preferences and other aspects of the market.
- Region-specific issues and problems get due attention in the decision-making process of the organization. This method also provides for faster and effective solution of regional issues.
- Experience gained at the regional levels is a good training for managers at higher levels.

- It can help organizations to reduce cost by keeping the unique organizational resources closer to the market.[41]

Limitations of geographical departmentalization—This form of departmentalization has some weaknesses. They are as follows:

- Since the departments are geographically dispersed and physically separated from one another, it is difficult to coordinate their activities effectively. This problem becomes more acute when the departments are located in different countries, separated by thousands of miles.
- Organizations usually require large administrative staff for supervising the activities of the employees working in different geographical departments.
- This kind of departmentalization often results in the duplication of organizational resources and functions. For instance, high inventory cost is often the outcome of geographical departmentalization.

Process departmentalization—When the organizational activities are grouped on the basis of product or service processes used, it is called process departmentalization. Usually, the technical functions involved in a manufacturing type organization form the basis for process departmentalization. Mostly, economic and technological factors guide the decisions relating to departmentalization based on process. In this type, the need for coordination is more as the quality of output often depends on the degree of coordination among different processes. Process departmentalization is better suited for organizations that have environment and technology, which is homogenous, clear and stable.[42] Manufacturing organizations that have machines requiring special operating skills and technical facilities prefer process departmentalization.[43] The typical process departments for a sugar-manufacturing company are cleansing and grinding, juicing, clarifying, evaporation and crystallization, refining, separation and packing. Now we shall discuss the merits and limitations of process departments.

Merits of Process Departmentalization

The merits of process departmentalization are as follows:

- Process departmentalization helps the members to gain an in-depth job specialization by enabling them to sharpen their technical skills and knowledge in specific and limited areas.
- It ensures logical and effective flow of work activities necessary for smooth and hassle-free production of goods.

- This method is better suited for work activities which involve the use of specialized equipment and skills. This is possible because specialized equipment is vested with separate departments, which are made responsible for their operation and maintenance.
- It facilitates effective supervision of employees as they often have a common background with the same or similar knowledge and skills.
- It makes the departments interdependent and collectively responsible for productivity and performance. This necessitates the departments to foster better cooperation and coordination.

Limitations of process departmentalization—A few limitations of this method are as follows.

1. This method is not universal in nature as it cannot be adopted by all forms, sizes and nature of organizations. This method is ideal only for certain types of products or goods.
2. Though the departments are interdependent, it is difficult to ensure effective coordination. This is because the departments may concentrate more on department-level issues and problems, even overlooking the overall organizational interest and goals.
3. It will be difficult for organizations to provide comprehensive skills and knowledge to the managers due to their limited exposure and experience.

Matrix departmentalization—When two or more forms of departmentalization are used for grouping the organizational activities, it is called matrix departmentalization. It is a hybrid nature of organizational structure.[44] This structure is usually a mixture of functional, product, geographical, process, customer or any other traditional form of departmentalization. The primary objective of matrix department is to take advantage of the strengths of conventional forms of departments and to avoid their inherent weaknesses.

The well-known form of matrix departmentalization involves a combination of functional and product forms of departmentalization. For instance, the sales department of an organization may be classified and grouped on the basis of the various products manufactured. However, an organization may also combine other forms of departmentalization (like geographical and functional) to form matrix department. For example, a matrix department may be formed by locating the marketing department of an organization at different geographical locations of the country. Generally, matrix department is ideal for project type of works because they cover some or all of the organization's departmental areas. Matrix departmentalization is commonly found in multinational corporations. It provides necessary flexibility to deal with multiple projects, programmes or product needs and to take care of the regional differences, if any.[45] Let us take an evaluation of the matrix form of departmentalization.

Merits of matrix departmentalization—Matrix departmentalization can offer multiple benefits to an organization. They are as follows:

1. Matrix departmentalization is helpful in ensuring high level of cross-functional interaction among members of different departments.
2. It is capable of reducing and eliminating duplication of functions and resources. This is possible because the functional departments depute specialized employees from their department to matrix departments on a need-based manner for a specific time period.
3. This method is appropriate for effective execution of huge and complicated projects as necessary physical resources and human resources (experts) can be quickly drawn from other departments.[46]

Limitations of matrix department—The major limitations of this method are:

1. There is a scope for misunderstanding and conflicts among the managers of matrix departments and functional departments leading to confusion in project executions. Managers of functional departments may not be too willing to relieve their best people for matrix departments fearing work disturbances in their own departments.
2. Coordination may be difficult among different departments, especially when the organization has several ongoing projects at a time.
3. Scarcity of managers with diverse skills required for managing complex matrix departments may affect the formation and performance of these departments.

Time-based departmentalization—Organizations can also form time-based departmentalization to organize their activities. In time-based departmentalization, time becomes the basis for classifying and grouping the organizational activities. Organizations operating on a shift basis are an example of departmentalization by time. For instance, factories may operate on three-shift basis for all 24 hours in a day with separate functional departments and managers for each shift. This form of departmentalization ensures optimum utilization of the organizational resources.

Even though each type of department can bring some benefits to the organization, management should choose a departmentalization type that best suits the organizational needs and helps it to fulfil the short- as well as long-term goals. We shall now discuss the common benefits of departmentalization to organizations.

Benefits of Departmentalization

Organizations can get several benefits from departmentalization of its activities. They are as follows:

1. Departmentalization enables managers and members of the departments to acquire specialization in their work because they perform certain repetitive works available within their department.
2. Since different departments work under the care of different specialized managers, it is easier for an organization to achieve faster and balanced growth. In the absence of departmentalization, it is difficult for organizations to grow beyond certain levels.
3. As each department is assigned with specific and well-defined work and goals, it is relatively easy for the higher management to fix responsibility for any performance lapse, failure and incompetency.
4. Through departmentalization, managerial authority is decentralized across the organization. This ensures that the department managers have real and meaningful autonomy to make decisions and also involve the workers in the decision-making process.
5. Organizations can make best use of the resources as duplication of functions and resources are considerably reduced through the departmentalization process.
6. Top management can train and develop its managers for higher positions by initially assigning them administrative duties and responsibilities at different departments.
7. Performance measurement and comparison for career advancement and wage fixation can be done more effectively at departmental levels. This is because employees at the departmental level are often involved in similar and comparable nature of activities only.
8. Departmentalization enables organizations to respond quickly and effectively to the customer needs and complaints. It thus ensures better customer service.

Limitations of Departmentalization

In spite of its many benefits, departmentalization has some major limitations too. We shall now look at these limitations.

1. Departmentalization often slows down the decision-making process of the organization as too many persons are to be consulted when decisions are made. Consequently, it causes difficulties for the organization in exploiting the emerging opportunities quickly and productively.
2. As a result of departmentalization, managers develop the tendency to give undue importance to departmental activities and issues even overlooking the overall organizational interests and priorities.

3. Administrative cost of the organization is bound to go up as a consequence of departmentalization. This is because large administrative staff, infrastructure and resources are required by the organization for maintaining different departments.
4. Integrating the activities of various departments to achieve organizational plans and goals is a complex task for the management.
5. Management may find it difficult to hold any department responsible for goal failures, if more than one department is involved.

Span of Management

After the organizational activities are grouped through the departmentalization process, the next element of organizing is to establish reporting relationship among various positions. An organization should establish clear lines of authority among all positions. In this regard, it is necessary for organizations to determine how many persons should report to each manager. The process of determining the number of subordinates for each manager is called span of management. This number should be neither too large nor too small. If the numbers are too large, management of employees may not be effective. In contrast, if the numbers are too small, administrative cost will rise. It is therefore necessary to determine the number of individuals whose activities can be effectively coordinated and controlled by any one manager.

The term span of management refers to the number of employees reporting to a single manager. Span of management is also known as span of control, span of supervision or span of authority. Span of management is normally expressed as a ratio of manager to employees.

Types of Span of Management

Span of management can be classified into wide span and narrow span depending on the number of subordinates who come under a superior. We shall discuss these two types of spans.

Wide span—When a large number of subordinates are placed under one superior, it is a wide span of management. It is also called operative span as it is meant primarily for lower-level managers. Organizations will have less hierarchical levels and a flat structure if they have wider span of management. Flat structures have fewer management levels. Employee empowerment, job autonomy and self-direction are usually achieved through flat organizational structure. Figure 7.7 depicts the wide span.

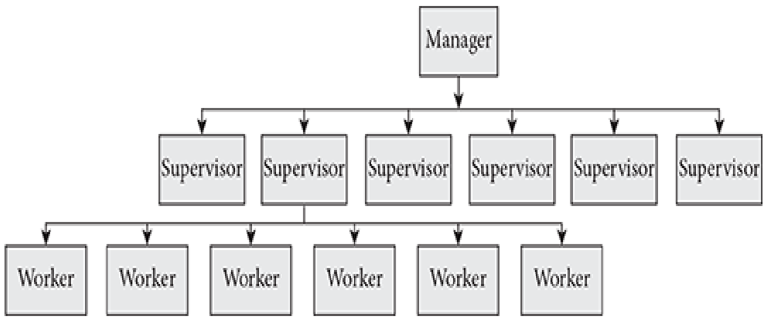

Figure 7.7
Wide Span

Box 7.5
Flat Structure Initiative at Apollo Manufacturing Unit

Organizations are usually careful in choosing between tall and flat organizational structures. Traditionally, large organizations, especially in the manufacturing sector, use a tall structure as the decision-making authority is rested with the top management and the employees are entrusted with the execution part alone. In contrast, flat organizational structure is generally used by small and medium firms. Service sector firms like IT firms with sizeable knowledge workers prefer a flat structure since it offers better job autonomy and decision-making powers to employees. Defying this trend, Apollo Tyres has opted for a flat structure for one of its modern manufacturing units at Oragadam, near Chennai.

Apollo introduced a four-tier flat organizational structure to facilitate quick decisions and effective implementation. Since almost all jobs at this unit are white collar jobs, a flat structure is found to ideally suit this manufacturing unit. The four layers in this organizational structure are unit head, group leaders, team leaders and team members.

Flatter structures are flexible in nature. They facilitate faster communication, quicker decisions and responsiveness. Organizations with flat structures will incur less administrative costs as managers would be fewer in numbers. However, it may force the managers to spend too much time on supervising their employees. Further, when a large number of employees report to a manager, confusion over roles might be caused. Box 7.5 displays the flat structure initiative of Apollo manufacturing unit.

Narrow span—When only a few subordinates are placed under a supervisor, it is a narrow span of management. Organizations will have more hierarchical levels and a tall structure if they have a narrow span of management. As an organization grows, the number of management levels increases and the structure grows taller. Narrow span is also called executive span as it is meant basically for middle- and top-level managers of an organization. Generally, higher levels of management have relatively narrower span of management than the lower levels in many organizations. Figure 7.8 shows the narrow span.

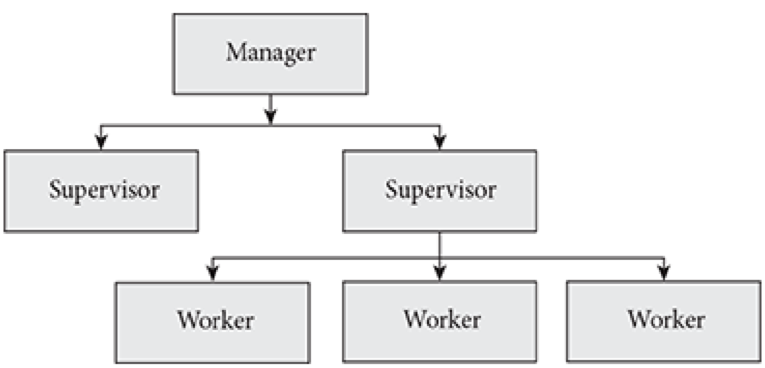

Figure 7.8
Narrow Span

Organizations with tall structures facilitate effective managerial control. Tall structures are capable of reducing the routine supervisory burden of managers. It also offers greater promotion opportunities to the people. This should in turn enable them to focus on non-routine, creative planning activities. However, tall structures generally have the problems of: (i) high administrative cost due to the need for more managers, (ii) less effective and faster communication as the communication channels are normally lengthy and (iii) inadequate and infrequent direct contact between the higher management and employees. Too many hierarchical levels and narrow spans of management are widely prevalent structural problems for organizations.[47]

Though span of management is critical in determining the nature and the shape of the organizational structure, no ideal span of management that fits all situations is available. This is because each department within the same organization may require different spans for effective management of employees. However, the average span of management of an organization decides the height of its structure.[48] Organizational height typically refers to the number of levels of the management in a firm.

Factors Influencing Span of Management

In any organization, managers normally handle three kinds of interactions. They are: (i) managers' direct interaction (in the form of one-to-one relationship) with each subordinate entrusted to them, (ii) cross interaction in the form of diagonal relationship among the subordinates and (iii) group interaction/relationship between the groups of subordinates.[49] The possible number of interactions between a manager and his subordinates can be decided with the help of the formula:

$$I = N(2^N / 2 + N - 1),$$

where I is the possible number of interactions with and among subordinates and N is the number of subordinates.

When two subordinates work under one manager, according to Graicunas, six interactions are possible. When the number of subordinates is increased to five, then the number of possible interactions leaps to 100. This clearly shows the direct relationship between the number of subordinates and the complexity of relationships. As the number increases, the complexity of relationship also grows.

Besides the complexity of relationships, some other factors also influence the decisions regarding span of management. They are: (i) nature of work, (ii) knowledge, skills and ability (KSA) of the subordinates, (iii) competence and qualification of the managers, (iv) availability of a standard operating procedure, (v) geographical location of the job, (vi) stability of the organization, (vii) training facilities, (viii) management's philosophy and (ix) managers' attitude and preferences. We shall now briefly discuss these factors.

- **Nature of work**—Span of management is influenced by the nature of work performed by the subordinates. For instance, when the subordinates perform routine, repetitive, homogenous and stable work, large span of management is possible. In contrast, when the subordinates are to carry out specialized, non-repetitive and heterogeneous nature of work, short span of management is preferable. When the nature of work requires high degree of interactions between superiors and subordinates, then wider span of management is essential.
- **Knowledge, skills and ability (KSA) of the subordinates**—The existing KSA levels of subordinates can determine the appropriate span of management. For instance, when the subordinates are highly skilled, knowledgeable and possess the ability to work independently, then wide span of management is suitable. Alternatively, narrow span is necessary when the subordinates are unskilled or semiskilled and routinely seek assistance and direction from the managers for performing the job.
- **Qualification and competency of the managers**—The competency levels of managers can influence the decisions on the span of management of an organization. For example, when the managers are highly trained, experienced and efficient, span of management can be larger. Similarly, if an organization makes available efficient support in the form of specialized advice to the managers, span of management can be wider. Organizations should go for narrow span, if the managers lack necessary experience, expertise and training in their job.
- **Availability of standard operating procedure**—The extent of availability of standard operating procedure that clearly defines the job and guides in the job performance can determine the span of management. When well-defined and standardized operating procedure is available, the span can be wider. Otherwise, an organization should have narrow span of management only.
- **Physical dispersion of subordinates**—The physical dispersion of subordinates can influence the span of management of an

organization. When the subordinates are physically dispersed from the manager and located at different geographical areas, then narrow span may be preferred as close supervision is required for effective control and coordination of the work.

- **Stability of the organization**—The extent of stability of organizations can decide their span of management. When the whole organization, including its departments, remains largely unaffected by the changes in its environment, it can have wide span of management. In contrast, if it suffers from frequent instability due to changes in its environment, high labour turnover or any other disturbance, then narrow span may be essential. This is because managers are required to deal with high frequency of new problems and new subordinates.
- **Training facilities**—The nature and extent of training facilities available with an organization can influence the span of management. When organizations possess adequate training resources and capability for constantly meeting the skill needs of the workforce in a dynamic environment, then the span of management can be wider. In the absence of training facilities, organizations may require narrow span of management.
- **Management philosophy**—The nature, philosophy and attitude of the management are capable of influencing the span of management. When the management believes in democratic principles and emphasizes on participative planning and decision-making process, then a narrow span is required. This is because there will be more complexity in the communication system of these organizations.[50] In contrast, autocratic organizations with coercive approach can have wider span because the subordinates here are expected to strictly follow the instructions of their managers.
- **Managers' personal preferences**—Managers' desire for a specific span of management can also influence the decision of the organization. When each manager prefers to have a large group of subordinates under their control, they may opt for wider span of management despite other factors favouring narrow span of management. Similarly, if they are determined to have only a limited number of subordinates under their control, they may prefer narrow span, even if they can have a larger group.

Factors Affecting Organizational Design and Structure

The design process of an organization, which involves the determination of the organizational structure, is normally influenced by factors, such as strategy, technology, human resources and environment. We shall now discuss these factors briefly.

Strategy

Strategy is the plan of an organization to compete successfully in the market. Organizational strategies normally influence the organizational design and structure. The strategy adopted by an organization has been found to be consistently associated with the type of technology and structure.[51] Different strategies normally require different structures. To achieve product diversification, for instance, an organization may require new reporting structure, new positions, etc. Organizational strategies for achieving targeted growth, better customer service, diversification, reduced labour cost, prompt delivery of goods and services, low attrition rates, etc. may require changes in structure. Specifically, if the management wants to reduce the labour cost through downsizing, it may have to restructure the organization by identifying and eliminating the positions and persons found to be in surplus. Thus, product diversification and differentiation strategies may require flexible structure while a more formal structure is suitable for low cost and less diversified products.[52]

Environment

An organization's design and structure is influenced by the developments in its environment. When changes in the organizational environment are swift and frequent, managers design flexible structures for better adaptability and faster responses. In a relatively stable environment, organizational structure can be more formal. In difficult but stable environments, organizations can have a decentralized bureaucratic structure. In contrast, organizations normally require centralized bureaucratic structure in simple and stable environments.[53]

Technology

Technology consists of the conversion processes used to transform inputs like material and information into outputs like products or services.[54] The nature and level of technology of an organization can have significant influence on its design process. After examining the nature of relationship between technology and organization, Joan Woodward has identified a possible relationship between technology and organizational design.[55] Organizations with complex technology usually have a tall structure with increased number of levels of management. In contrast, organizations with simpler technologies operate with flatter structures and fewer levels of management.[56]

Employee Skills

Organizational design and structure is influenced by the KSA levels of employees. Managers normally choose organizational designs that help them to better utilize their employee skills and organizational resources, and remain competitive.[57] Organizations with higher employee skills and motivation levels typically have a wider span of management and decentralized structure. In contrast, narrow span of management and centralized structure are appropriate for organizations with relatively low employee skills and motivation.

Size

The size of an organization is determined by the number of people employed, amount of capital invested, scale of its operations or market size and reach. The size determines the organizational structure and the differentiation.[58] Large organizations normally require greater division of labour and job specialization, more standardization and better coordination and control than small organizations. Typically, large organizations prefer more formalized structure and less informal communication. Large organizations are generally more decentralized as their higher executives cannot afford sufficient time and expertise for routine decision-making activities.[59] In contrast, small organizations prefer centralized structure for tight control and fast decisions.

Geographical Location

Geographical location of a business can influence the organizational structure and design. When the business of an organization is primarily located in one place, then the managers can design a simple structure with minimum levels of management. In contrast, managers may need to design a complex structure if the organization maintains multiple centres of operations or business offices for effective coordination and control.

Apart from the above factors, various forms of organizations, such as sole proprietorship, partnership or company can also influence the design and structure of organizations.

Summary

1. Organizing is a process that involves the arrangement and grouping of organizational activities and resources, and establishment of relationship among them with a view to fulfil the organizational goals.
2. Organizing is a goal-directed activity, differentiating activity, grouping activity, assigning or delegating activity and integrating activity.
3. Organizing is important because it: (a) facilitates goal accomplishment, (b) clarifies the work environment, (c) enhances job specialization, (d) improves coordination, (e) allows well-defined reporting relationship, (f) facilitates staffing, (g) avoids redundancy and duplication of efforts, (h) boosts employee satisfaction and motivation.
4. The important principles of organizing are: (i) principle of chain of command, (ii) principle of unity of command, (iii) principle of unity of direction, (iv) principle of span of control, (v) principle of specialization, (vi) principle of coordination, (vii) principle of delegation, (viii) principle of flexibility, (xi) principle of parity of authority and responsibility.
5. The steps in the organizing process are: (1) recognizing the organization's goals, plans and operations, (2) deciding the goal-related activities, (3) grouping of work activities, (4) assigning activities and authority to specific positions, (5) coordinating the divergent work activities and (6) evaluating the outcome of the organizing process.
6. Organizational design is the design of the process and people systems to support organizational structure.
7. Organizational structure is defined as the framework that managers devise for dividing and coordinating the activities of their organization. Forms of organizations are: (i) line organization, (ii) line–staff organization and (iii) committee organization.
8. Organizational chart is a visual representation of the whole set of underlying activities and processes in an organization.
9. Elements of organizational design and structure are: (i) division of work and job specialization, (ii) departmentalization, (iii) chain of command, (iv) span of management, (v) hierarchy of authority—centralization *vs.* decentralization and (vi) formalization.
10. When the total workload is divided into different activities or tasks, it is called division of labour. Job specialization is acquired by employees by performing a part of an activity rather than the whole activity.
11. Departmentalization is the process of grouping jobs according to certain logical arrangement. The different kinds of groupings are: functional departmentalization, product departmentalization, customer departmentalization, geographical departmentalization, process departmentalization and matrix departmentalization.
12. Span of management is the process of determining the number of subordinates for each manager. Span of management can be divided into wide span and narrow span.
13. The factors influencing the span of management are: (i) nature of work, (ii) knowledge, skills, ability (KSA) of the subordinates, (iii) competence and qualification of the managers, (iv) availability of standard operating procedure, (v) geographical location of the job, (vi) stability of the organization, (vii) training facilities, (viii) management's philosophy and (ix) managers' attitude and preferences.

Review Questions

Short-answer questions

1. Define the term organizing.
2. What are the characteristics of organizing?
3. Examine briefly the importance of organizing.
4. What do you mean by organizational design?
5. Define vividly the meaning of organizational structure.
6. State the benefits and limitations of line organization.
7. Write a note on committee organization.
8. What is meant by the term organizational chart?
9. Give a brief account of division of labour and job specialization.
10. Point out the meaning and purposes of the term departmentalization.
11. Bring out the meaning of the term span of management.
12. Distinguish between narrow span and wide span.

Essay-type questions

1. Describe in detail the various principles of organizing.
2. Enumerate the steps in the organizing process with relevant examples.
3. Evaluate the different types of organizations with suitable examples.
4. Critically examine the role of line–staff organizations in enhancing the quality of managerial decisions.
5. Job specialization is often seen as a normal extension of organizational growth. In light of this statement, describe the importance of job specialization to organizational performance and productivity.
6. Illustrate with examples the various forms of departmentalization.
7. Crucially evaluate the factors influencing the span of management.
8. Discuss in detail the factors affecting the organizational design and structure.
9. Organizational structure is an essential prerequisite of effective management. Discuss.
10. No single organizational structure can suit all situations. In light of this statement, discuss the forms of organizational structure with appropriate examples.

Case Study

Structural Compatibility at KingMac

KingMac is one of India’s leading food service retailers with more than 350 restaurants across India. This company has been serving more than 5 lakh customers each day. KingMac has acquired leadership position in India within 15 years of commencing its business operations. Now it has developed aggressive expansion plans, which include market expansion, new customer outreach formats and menu expansion. For instance, KingMac has evolved an ambitious strategy to double the number of restaurants and customers within two years. This company has been mainly using a centralized organizational structure to manage and control the functioning of its widely-dispersed retail outlets.

Establishing a centralized structure has made it easy for KingMac to apply common policies and practices for the business as a whole. It has also found it easier to coordinate with the staff and the activities of all its restaurants. This system has also enabled the company to achieve economies of scale in purchase of material and labour hiring. Yet, KingMac has of late been receiving a spate of complaints from its customers on the quality and timeliness of the services offered by its retail outlets. The customers are also perturbed over the inordinate delay in getting response from the company for their complaints. The staff of KingMac restaurants, including its managers, have expressed their inability in attending to the customers' complaints promptly, owing to the nature of organizational structure as every organizational matter is literarily vetted and decided by the central office.

Even though the managers of KingMac remain close to the customers and are aware of their needs and problems, the decision-making structure and system of the company does not permit them to act swiftly in mollifying customer grievances. The absence of authority down the organizational hierarchy has also not helped the managers in establishing their absolute authority over their subordinates. It has also dented the motivational levels of the managers and has made them look weak and incompetent in the eyes of the employees and customers. To make matters worse, many resourceful global players in the food service industry have also entered the Indian market aggressively, thus making KingMac's position more precarious. The lackluster customer service and the burgeoning customer complaints have only accentuated the problems of KingMac. The top management of the company has now been under tremendous pressure to restructure the company in such a way that the benefits of the existing system and structure are preserved even while the present troubles are eliminated.

Questions

1. How do you understand and assess the situation prevailing in KingMac?
2. According to you, which type of organizational structure is better suited for KingMac and why?
3. What are your suggestions for solving the recurring problems of the company apart from the structural changes?

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CHAPTER 8

Authority, Responsibility and Accountability

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning of authority
2. Describe the process of delegation
3. List the different types of delegation
4. Describe centralization *vs*. decentralization of authority
5. Enumerate the guidelines for measuring the extent of decentralization
6. Define job design
7. Describe the critical components of job design
8. Present an overview of organizational structure

India's Inspirational Managers

Deepak Parekh is the non-executive chairman of Housing Development Finance Corporation Limited (HDFC). He has been associated with this corporation for a long time in different capacities. His astute business acumen, farsightedness and belief in professional management has not only made HDFC the leader in mortgage financing but also transformed it into a financial conglomerate. Parekh emphasized on sound values such as professionalism, integrity and transparency in administration. In Deepak Parekh's words, "You can't manufacture culture. Culture builds in an organization over a period of time, and the tone at the top must be integrity, value systems." Parekh, known for attributes like accessibility and informality, is also on the board of several leading corporations across varied sectors. His quality as a master trouble-shooter has made him a guiding force and an active member of various high-powered economic groups constituted by the government of India. Parekh has received many awards for his brilliant administrative styles and managerial acumen. Parekh's style of administration sets the background for a discussion on authority, responsibility and accountability.

Introduction

Authority refers to the right to influence the activities of the subordinates. After deciding the type of departmentation and span of control the next stage in organizing is deciding the extent or degree of authority to be given to each person/position in the organizational structure. This authority enables independent functioning by employees but within the prescribed limits. Generally, the amount of authority to be given to each position depends on where that position is located in the organizational hierarchy. Managers at the top levels are usually given more authority than those at the middle and lower levels. Similarly, managers at the middle level will have more authority than those at the lower or supervisory levels.

Managers are given the authority to make decisions and use organizational resources for realizing the organizational goals and plans. Authority empowers managers to do what is needed for their job. But managers cannot do all the work by themselves, so they delegate a part of their work and authority to their subordinates. Generally the transfer of formal authority to people at the lower level of hierarchy for a specific purpose is called delegation. Delegation of authority as well as responsibility is necessary for getting things done through others and also for organizational goal accomplishment. Delegation of authority by the managers does not mean giving away of authority to the subordinates, it only means sharing. The ability to delegate is important for managerial success. The authority of each person must be well-defined and they should know clearly the scope of their authority. Typically, authority is delegated to the lower positions in the chain of command. It thus flows from the top to the bottom of the organization. We shall now discuss the delegation of authority and responsibility.

Authority

Delegation of authority is essential for developing the skills and abilities of the subordinates. It is an important technique for preparing the lower-level managers for higher positions at the later stage. Delegation of authority also plays an important role in increasing the productivity of the employees. While delegating, managers must ensure that authority is accompanied with appropriate level of responsibility and accountability. Authority should be equal to the responsibility. If somebody is given responsibility for something, then he or she must have adequate authority to take the action needed for achieving success.[1]

Responsibility

The term responsibility refers to the obligation or duty of employee to complete the tasks assigned by performing the required activities. Responsibility may also be defined as the employee's obligation that arises when accepting the manager's delegated authority.[2] Responsibility requires the employees to perform specified tasks with the authority delegated. Responsibility gives employees the feeling of usefulness and pride in their work. But, it is essential for managers to ensure that the subordinates have just enough authority to meet their responsibility. When the subordinates are given responsibility without appropriate authority, it will result in job stress and frustration, and employee dissatisfaction. In such a situation, employees may view responsibility as a burden and not as a privilege. On the contrary, if too much authority goes with too little responsibility, it may result in employee malpractice, recklessness, and other dangerous situations. Managers must therefore ensure a balance between responsibility and authority. A right blend of authority and responsibility is necessary for achieving high employee cooperation, motivation and productivity. A right combination is also essential for fulfilling the organizational goals and plans. Managers must also make sure that their subordinates become answerable for all their actions. This can be done by bringing in accountability for employees' action. Box 8.1 shows ITC's method of balancing authority and responsibility.

Accountability

Fixation of accountability after the delegation of authority and responsibility is of utmost importance. Accountability makes the employees answerable for the satisfactory completion of a specific task or assignment.[3] Accountability is actually a mechanism through which authority and responsibility are brought into alignment.[4] At the time of delegation, managers must make certain that each employee knows clearly what they are accountable for. This will then ensure that employees constantly report and justify the outcome of their actions to the managers. Though it is easy for managers to fix accountability for the employees, there should not be any arbitrariness in such decisions. We shall now discuss the steps involved in delegating authority and responsibility along with accountability to the employees.

Box 8.1
Balancing Authority and Responsibility—The ITC Way

Organizations always strive to ensure that the authority provided to the manager is commensurate with responsibility. When the managers are given inadequate authority for discharging their duties, they may experience difficulties in getting work done by their subordinates and also in accomplishing job goals. In contrast, when the managers are provided with excessive authority, then they may become autocrats, using their authority even for trivial and frivolous matters. It is therefore necessary for the management to ensure that there is a proper balance between the authority and responsibility levels. ITC's Corporate Governance initiative is worth mentioning here.

ITC looks to strengthen and refine its corporate governance processes and systems by striking the golden balance between executive freedom and the need for effective control and accountability. The two important principles of ITC's Corporate Governance initiative are: (i) managers must have the executive freedom or authority to drive the enterprise forward without unnecessary restraints and (ii) such freedom of management should be exercised within a framework of effective accountability. ITC believes in the creation of a mechanism of checks and balances which ensures that the decision-making powers vested in the executive management is not misused, but used with care and responsibility.[33]

Process of Delegation

Delegation, which involves the transfer of formal authority and responsibility, is a multistep process. It is one of the difficult tasks of the managers for two reasons. The first reason is that it is difficult to find the right person to whom the tasks and authority can be delegated. The second reason is that managers may find it hard to share some of their authority with another. However, the hardest part of any delegation is in ensuring right balance between authority and responsibility. Managers should delegate neither too much nor too little authority to their subordinates. Managers, through a systematic delegation process, can make certain that authority and responsibility are properly delegated. The process shown in Figure 8.1 can be adopted by managers after making necessary changes to make it suitable for them.

Determining the Need for Delegation

The process of delegation begins only when the managers feel a need for sharing of some of their tasks and authority with others. Changes in the nature of work, expansion of business operations, changes in the organizational objectives, policies, procedures, practices, etc. can create such need for delegation in organizations. To make delegation beneficial, managers must have a clear understanding of the goals of their job and the job of other people who work for them.[5] In other words, managers can achieve success in their delegation initiative only if they know well about their subordinates and organizational environment and practices.

Assigning the Tasks and Duties

Once managers decide to delegate, they should prepare a list of tasks to be delegated to their subordinates. In this regard, it is essential that these tasks are well-defined. It is better to keep a written description of the tasks to avoid any possible confusion in the future. Managers should also define the goals of delegation and the result expected from it. They must communicate this information clearly to the subordinates to whom the tasks are delegated. Managers must also ensure that the subordinates understand what tasks need to be done by them and how they should do it. They must also be aware of the degree of difficulties involved in the job.

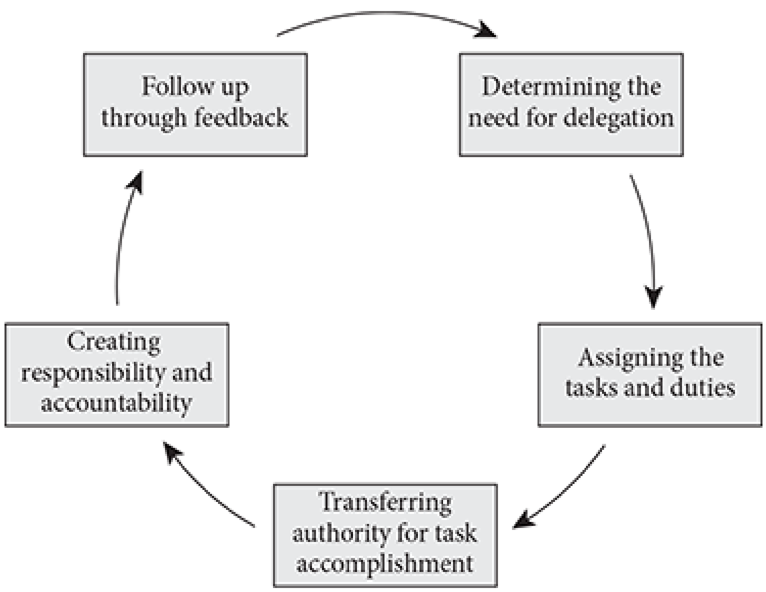

Figure 8.1
Process of Delegation

Transferring Authority for Task Accomplishment

After tasks are assigned to the subordinates, managers should empower them to carry out the tasks assigned and fulfil the goals. This requires the transfer of adequate authority to the subordinates. Authority is necessary for subordinates to make and execute decisions, to use organizational resources, to direct their own subordinates and to represent their superiors. The quantum of authority to be delegated normally depends on the nature and kind of tasks assigned. Authority can be classified into four categories based on the end purpose for which it is transferred. They are as follows:

1. **Authority to inform**—Subordinates have the authority to inform the managers of all possible alternative courses available for solving a problem. However, the managers retain the right to accept or reject the suggestion and to make their own decision.
2. **Authority to recommend**—Subordinates are permitted to identify all possible alternative course of actions, evaluate them and choose the best course of action. Subordinates' recommendation is then communicated to the managers, who finally decide whether to act on the recommendation or not. Often, committees are delegated with this type of authority only. In case the manager is not satisfied with the recommendation, he may ask the committee to make fresh recommendations.
3. **Authority to report**—Subordinates are empowered to gather and analyze all possible courses of actions and then choose the best course of action for implementation. Certainly, subordinates with this kind of authority can also proceed with further actions based on their decisions. However, they are duty-bound to provide reports to the managers about their activities.
4. **Total authority**—Subordinates get almost complete authority from their managers. Besides deciding the best alternative, they can also implement their decisions without the knowledge of the managers. In practice, subordinates however keep the managers informed of their actions and results.

Creating Responsibility and Accountability

When authority is delegated to the subordinates, it creates an obligation for them to complete the tasks and goals assigned. This obligation to the superior is called responsibility. The subordinates' responsibility to the superior is absolute and cannot be shifted under any circumstances. This responsibility makes them accountable to the managers for all their actions and the consequences of such actions. Managers can evaluate the performance of the subordinates by comparing their actual performance with the performance standards. Subordinates become accountable to the managers for performance deficits, if any. However, it should be clearly understood here that managers too can delegate only their authority and not their responsibility to the subordinates. This is because managers are responsible for the acts of the subordinates to whom authority is delegated. Managers cannot escape from their responsibility arising out of the failure of their subordinates.

Ensuring Follow-up Through Feedback

Managers can enhance or reduce the delegated authority depending on the changing requirements and situations, it is essential for them to be aware of the efficacy of the whole delegation process. Besides measuring the performance of the subordinates, managers should also get their views on the existing delegation system. This will make the managers more sensitive to the needs and difficulties of the subordinates. It can also help the managers to determine the training requirements of their subordinates as related to delegation. Box 8.2 depicts the delegation of authority in GAIL.

Effective Delegation of Authority

Delegation of authority and tasks can be effective only if the managers:

1. Delegate duties and authority to the right and trustworthy persons at the right time for the right purpose.
2. State clearly, simply and directly how the delegation is important for the achievement of organizational goals.
3. Assign the complete task to a subordinate, rather than dividing it among many subordinates.
4. Provide specific and required level of instructions and also clarify the expected results.
5. Allow only as much authority as is required to the subordinate to perform the delegated tasks. Managers should enable the subordinates know the extent of their authority.
6. Desist from delegating their entire authority and work to the subordinates.
7. Ensure unperturbed guidance to the subordinates and also be supportive of their initiatives.
8. Anticipate and answer the questions of the subordinates responsibly and in order.
9. Develop effective review mechanism to measure the performance of the subordinates accurately and also recognize their superior performance.
10. Attach accountability to the delegated authority and responsibility.
11. Consult the subordinates during the delegation process and obtain their feedback continuously.
12. Keep the promises made to the subordinates at all times.

Box 8.2
Source of Executive Power at GAIL—A Public Enterprise

There are many sources of power existing in organizations. Of them, authority is the legitimate power which is vested in managers within formal organizations. Thus, people with authority are entitled to make binding decisions. Managers get substantial authority by virtue of their formal leadership positions. Authority is created at the top-most levels of the organization and delegated downwards in the organizational hierarchy. For instance, the chief executive officer (CEO) of an organization may derive authority from the board of directors and delegate such authority to the lower levels. In this context, the power transfer at the government of India undertaking GAIL (India) is worth mentioning.

The officers and workmen of GAIL derive their power and duties primarily from the provisions of the Companies Act, 1956, and Memorandum and Articles of Associations of the company. The powers and duties of the organizational members of GAIL are limited only to do the business activities of the company. It should also be ensured by the officers and workmen that they comply with the necessary provisions of the Constitution of India and other relevant statutes, including the organizational rules and regulations.[34]

Types of Delegation

Generally, delegations can be classified into different types based on its characteristics. We shall now look at a few important classifications.

- **General vs. specific delegation**—In general delegation, the subordinates are given the authority to do all the activities of the department. However, they seek general guidance from their managers while exercising their authority and performing duties. In specific delegation, the authority given to the subordinate is limited to the performance of certain specific functions only. Specific delegation is usually well-defined and task-based.
- **Formal vs. informal delegation**—When the delegation confirms to a well-defined line of command and control, it is a formal delegation. It is normally written and the authority is formal. In the case of formal delegation, subordinates will enjoy absolute authority after delegation. In contrast, when the delegation is not formally written or orally conveyed, it is informal delegation. This type of delegation usually does not confirm to any established organizational structure or formal procedure.
- **Conditional vs. unconditional delegation—**When authority is delegated without any preconditions, it is unconditional authority. In conditional delegation, subordinates are expected to get their

decisions approved by the subordinates. Managers should accept and confirm the activities of the subordinates. They may also refuse to confirm the subordinate's action and demand revisions.

- **Simple vs. complex delegation—**When the subordinates are given the authority to perform what they are presently doing, it is normally called simple delegation. They are responsible for their existing job. In contrast, when the managers delegate a part of their own job and authority to their subordinates, it is called complex delegation. In this case, subordinates will get new tasks, assume more authority and responsibility.
- **Direct vs. indirect delegation—**When no third person is involved in the delegation, as an intermediary between the two immediate parties to the delegation, namely, the manager and subordinates, it is direct delegation. In contrast, when the delegation is made through some third person or intermediary, it is called indirect delegation.
- **Downward, sideward and outward delegation**—When managers or superiors assign tasks and delegate authority to their immediate subordinates, it is called downward delegation. This is a common form of delegation. When subordinates transfer some of their duties and authorities to other subordinates of the same rank, it is called sideward delegation. When authority is delegated to someone outside the organization, it is normally called outward delegation. For example, when the authority to recruit certain categories of employees is given to an external agency, it is outward delegation.

Apart from the above categorizations, delegations can also be classified into the following:[6]

- **Time-bound delegation—**When the delegation is for a specific time period only, it is called time-bound delegation. For instance, delegation may be valid for a few weeks, months or years.
- **Group delegation—**When work and authority are delegated to a group after it satisfies prescribed conditions, it is called group delegation.
- **Redelegatable delegation—**When subordinates are given the right to redelegate their delegated tasks and authority to others, it is called redelegatable delegation.

Lastly, delegations can also be classified as weak, mild and strict delegations. In these, weak delegation normally involves no agreement, no request and very little influence or authority. Mild delegation involves no agreement, no request but significant influence to perform the tasks and accomplish the goals. Strict delegation involves explicit agreement, specific request and active goal achievement through task completion.[7]

Advantages of Delegation

The primary objective of management is to get things done through others. Delegation helps the management in accomplishing this core objective by assigning tasks and authority to others. In addition to this main benefit, delegation brings several other benefits to the management. They are as follows:

- Delegation helps the managers to focus on important and non-routine activities by delegating routine and less important works to others.
- It can boost the motivation and morale of subordinates by providing them enhanced job involvement, interest, satisfaction, challenge and autonomy.
- It enhances the capacity of the managers to manage more number of employees.
- It facilitates the organization to make timely decisions as authority is widely distributed across the organization.
- It ensures that decisions are made by people who have firsthand information about the problems or issues.
- It provides recognition and legitimization to the individual initiatives and achievements of the subordinates.
- Delegation is a type of on-the-job training as it provides subordinates with new learning, new experience and new skills.
- It enables teams to work cohesively as members will have greater understanding of the different aspects of work and also about the team issues and goals.

Challenges to Delegation

Though delegation is essential for getting things done through subordinates, there are certain factors which act against effective delegation in organizations (Figure 8.2). They are as follows:

- **Absence of confidence in subordinates—**When managers lack confidence in the ability of their subordinates to perform well in the delegated tasks, they may hesitate to delegate their work to them. Further, managers may skip delegation when they fear too much damage for the organization or the department, when the decisions of the subordinates go wrong. Similarly, managers may prefer not to delegate their work when they believe that they alone can perform it well and their role is just indispensable.
- **Fear of comparison**—Managers may be disinclined to delegate their tasks, when they fear that their subordinates could outshine them. When managers fear that a possible comparison of the performance of their subordinates with their own could end up in their own ouster from the job, they will prefer to do all the work by themselves.
- **Refusal by the subordinates**—Subordinates may refuse to take up additional tasks, authority and responsibility for a variety of reasons. For instance, they may fear victimization by their managers in the event of goal or plan failures. Some subordinates may view delegation as a pretext for the managers to lighten their work and burden them. Thus, subordinates may view delegation by their managers as a form of exploitation, especially when it comes without any reward. Managers' level of tolerance can also influence subordinates' attitude towards delegation. When managers indulge in frequent fault-finding, subordinates will prefer not to be a part of any delegation. Lack of training may also discourage subordinates from accepting any new task, authority and responsibility.
- **Difficulties in justifying the surplus time—**Top management will normally agree to the delegation proposals of the managers only

if they can convince their higher authorities about the need for such delegation. In this regard, managers may find it difficult to justify their surplus time available after delegation. This is because the top management will expect the managers to prove that the spare time could be more productively used for promoting organizational interest.

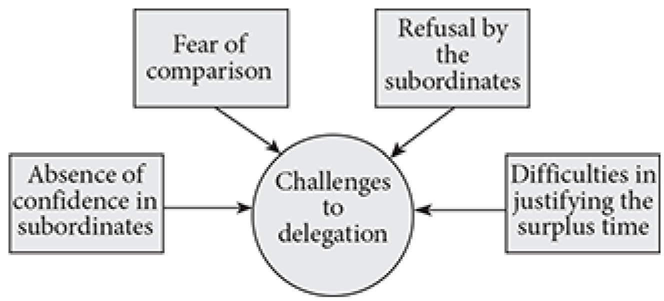

Figure 8.2
Challenges to Delegation

Factors like effective skill training for subordinates, a well-planned delegation, improved understanding between managers and subordinates, reward-linked delegation and top management's positive attitude towards delegation can facilitate effective delegation in organizations.

Centralization *vs.* Decentralization of Authority

Organizations have to decide where a decision should be made within a given hierarchical level. The levels at which decisions are made in an organization usually indicate the management's belief in centralization or decentralization. We shall now discuss centralization and decentralization of authority.

Centralization of Authority

When decision-making authority is retained at the top levels of the organization, it shows management's preference for centralization or top-down management style. In centralization, top-level managers delegate little amount of authority to the middle-or lower-level managers in an organization. They also usually keep a strong team of advisors to help them in the decision-making process. Most traditional organizations usually have a highly centralized decision-making system.[8] Similarly, organizations with an efficient and speedy communication system may favour a centralized decision system. This system is better suited for an organization which has fewer qualified and experienced people at the lower levels. Similarly, this method is necessary when the organizations' decisions are crucial and the risk of loss is high. Let us now discuss the benefits of and limitations to the centralized decision-making authority.

Benefits of Centralization

Organizations with centralized authority and decision-making system can have the following benefits:

- Centralization enables the top management to exercise close control over the operations of the organization.
- It ensures that the expertise of specialized staff is made available throughout the organization and not restricted to any one department or division.
- It enables the top management to directly plan and implement the important organizational activities without deviation or distraction.
- It helps organizations to protect themselves from the risk and cost associated with the faulty decisions of people at the lower levels.
- It ensures that there is uniformity in the policies and practices governing decision making across the organization.
- It makes sure that there is no duplication of any activities in the different departments of the organization.
- It makes certain that all the decisions of the organization are always consistent with the overall goals and strategies. It also ensures that there is continuity and consistency in an organization's dealings with different stakeholders.
- It ensures that various activities of an organization are effectively directed and properly coordinated towards goal accomplishment.

Limitations to Centralization

Though centralization has many benefits, it has a few limitations. They are as follows:

- Centralization slows down the organizational decisions as the employees have to wait for directions from the top management for future course of actions.
- Managers at the higher levels may not be able to understand the exact situation as they are away from the grass root levels. As such, they may not possess firsthand, in-depth knowledge of problematic situations.
- It forces senior managers at the top to spend their time on matters that can easily be dealt by managers at the lower levels of the organization.
- It may not permit the organizations to know and utilize the expertise available at the lower levels of the management. It can also curb the individual initiatives and innovations of the managers and supervisors at the lower levels of the organizational structure.
- It can demoralize the people at the lower levels as they may not have any job autonomy. In the long term, it can lead to increased job dissatisfaction, low employee morale and motivation, and high labour turnover.

Decentralization of Authority

When the decision-making authority is delegated to the people at the lower levels of the organizational structure, it shows the management's preference for decentralization or bottom-up management style. The principle behind decentralization is to ensure that the decisions are made by those people who aware of the situation very well. Since middle- and lower-level managers are empowered to make decisions in a decentralized setup, top managers will have fewer staff as advisors. Further, decentralization enables managers to respond quickly to any situation with fewer formalities. This method is better-suited for a very large and diversified organization where it is too difficult to administer from the top.

Benefits of Decentralization

The benefits available to an organization from decentralization are as follows:

1. Decentralization helps organizations to make fast, timely decisions to capitalize the market opportunities effectively. It facilitates managers to make faster and flexible responses when there are greater changes and uncertainty in the environment.
2. It ensures that the local expertise available with the managers at the lower levels of the organizational structure is put to best use. It also ensures that decisions are tailor-made to deal with the local conditions.
3. It allows the people who are closer to the grass root levels to directly deal with the customers, employees, competitors and markets to make decisions.
4. It is an effective instrument to enhance the job satisfaction, job involvement, motivation and morale of employees at the lower levels of the organizations. This is possible as the decision-making process offers challenges and satisfaction to the employees.
5. It provides a perfect setting for organizations to train and develop their lower-level managers for higher responsibilities at a later stage.
6. It allows organizations to make managers accountable for decisions and performances at the departmental or unit levels.
7. It provides scope for the people at the middle and lower levels to take initiatives and try innovations at their levels.
8. It enables experienced managers at the top levels of the management to use their time more productively by delegating routine, less important decisions to the lower-level managers.

Limitations of Decentralization

The drawbacks of decentralization are as follows:

1. Top management may find it difficult to adopt a consistent, uniform and unified approach towards the decision-making process across the organization.
2. The cost and failure of coordination of different activities can be high in decentralized form of organizations.
3. Managers at the lower levels may make decisions that may serve their departmental interest but not the overall organizational interest. Similarly, lower-level managers may attach too much importance for issues in their immediate surroundings while ignoring larger organizational issues.
4. Expertise of highly paid, specialized staff cannot be used to benefit the whole organization.
5. There may be duplication in the functions or activities performed by the managers of different departments.

Guidelines for Measuring the Extent of Decentralization in Organizations

According to Warren R. Plunket,[9] the degree of decentralization is normally high in those organizations, where:

1. A large number of decisions are made at the lower levels of the management.
2. Critical decisions are allowed to be taken at the lower levels in organizational hierarchy.
3. The organizational policies offer adequate operational flexibility to the employees at lower levels. They may have the freedom to interpret the policies differently depending upon the situation. For instance, organizations may permit the employees dealing with customer grievances to be more prudent than procedural in settling their grievances.
4. Subordinates need to consult their managers less number of times—only before any decisions are made.
5. Operations of the firm are widely dispersed across different geographical locations.

Centralization or decentralization is basically a relative concept in organizations. This is because no single method (centralized or decentralized) works well for all types of organizations. It is therefore important for managements to consider the suitability of each method based on the prevailing conditions before choosing a specific method. However, the organizational decision to adopt a specific method is often an evolutionary process.[10] It is because the extent of centralization changes in organizations as their scale of operation grows in size and complexity.

While deciding whether to centralize or decentralize the decision-making authority, management must consider the factors that favour centralization or decentralization. For instance, factors like skills and ability of the lower-level managers, cost of decision failures, time gap available for decision responses, size of the organization, geographical dispersion of the organizational facilities, need for local responsiveness, difficulties in effective coordination, etc. can decisively influence an organization's decisions relating to centralization or decentralization of the decision-making authority.

Managements typically execute their decentralization plans through job designs. In a simple sense, job design is the division of the work of the organization among its employees. The fundamental purpose of job design is to define and organize tasks, duties and responsibilities into a single unit of work for the fulfilment of organizational goals. Job design also describes the methods and relationships that are essential for job performance. It is used as an effective technique for achieving the degree of decentralization necessary for organizational goal accomplishment.[11] It also helps managements to state their philosophy and policies on decentralization. We shall now discuss job designs in detail.

Job Design

Job design is[12] basically a combination of the job content and the work method adopted in the job. Job content states the tasks to be performed as a part of the job while the work method deals with the mode of performing the job. Certainly, a well-designed job can have a definite impact on decentralization, job performance and the overall growth of the organization. It can also make the work experience of the employees more rewarding and productive. In contrast, a poorly-designed job often causes difficulties in the proper alignment of various functional activities, and also on decision making and goal accomplishment. Thus, the basic aim of job design is to clearly establish the role of each job and the job holder in the overall structure of an organization.

The designing of a job often involves responding to certain questions: What tasks need to be done as a part of a job? At what level should it be done? Who should do the job? How should it be done? While designing a job, the firm must keep in mind the organizational interest in terms of productivity, performance and quality. At the same time, it should also consider the employee interest in terms of satisfaction, challenges and the growth potential available in the job. In simple terms, it should be agreeable to both the management and the employees. In any case, job design should always be in alignment with the strategic goals of the organization.

Definitions of Job Design

Job design definitions basically focus on the job content and work methods associated with a job. We shall now see a few definitions on job design.

"Job design is the specification of the contents, methods, and relationships of jobs in order to satisfy technological and organizational requirements as well as the social and personal requirements of the job holders."[13] —L. E. Davis.

"Job design is the process of determining the specific tasks to be performed, the methods used in performing these tasks, and how the job relates to other work in the organization."[14] —R. Wayne Mondy.

"Job design refers to the study of jobs, tasks, constellations of tasks that encompass properties, perceptions, and response to properties and/or to perceptions."[15] —Ricky W. Griffin and Gary C. McMahan.

Critical Components of Job Design

The main purpose of job design is to increase the ability of a firm to meet its objectives effectively and to provide job satisfaction to the employees. Usually, job design is done on the basis of ergonomics (which means designing a job according to the worker's strength and ability in order to avoid strain injuries caused by repetitive operations), task characteristics (refers to the manner of construction of a job and the arrangement of tasks in that job), work practices (refer to the customs or norms developed over a period of time, which deeply influence the employees' behaviour and their way of doing the work), corporate cultures (refer to the norms, practices, assumptions and beliefs followed by an organization) and technological environment.

As shown in Figure 8.3, the components of job design are job enrichment, self-managing teams, job rotation, job reengineering, job enlargement, participative management, peer performance review and high performance work design. We shall now discuss these concepts in detail.

Job enrichment—Job enrichment refers to the development of work practices that challenge and motivate the employees to perform better. It often results in achieving desired improvements in productivity, safety of work, quality of products/services and job satisfaction. Organizations also adopt job enrichment to encourage multitasking by the employees in the job. Job enrichment may include, among others, the formation of a quality circle, self-directed team, job rotation and better communication. In a nutshell, job enrichment aims at achieving reduction of costs and inprovement of job satisfaction. In fact, studies have shown a positive correlation between job enrichment and job satisfaction.[16]

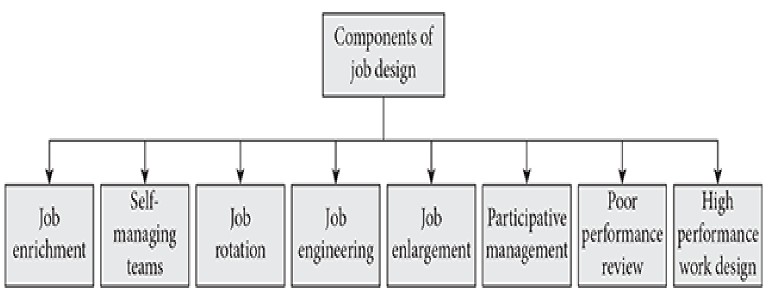

Figure 8.3
Components of Job design

How to enrich a job?—The main aim of job enrichment is to provide an enhanced autonomy for the employees and increased operational efficiency for the organization. To achieve the desired results in job enrichment, the following guidelines could be followed:

- Enhancing the scope of the job to utilize the diverse skills of the employees.
- Allowing the employees to do the whole job, i.e., from the beginning till the end, so that they could develop a sense of achievement.

- Providing necessary autonomy to the employees on matters relating to the method, speed and order of doing the job.
- Encouraging the employees to know the significance of their work in terms of its contribution to the accomplishment of the overall goal of the organization.
- Constantly challenging the employees to adopt innovation in job by acquiring new knowledge and skills.
- Improving the information-sharing process by strengthening the existing communication channels and also by introducing new communication channels.
- Ensuring that the employees get timely and adequate recognition and appreciation for their effective performance and successful completion of the job.
- Enabling the employees to get constant feedback of their own performance by communicating the results of the work done by them.
- Encouraging the employees to involve themselves in goal-setting and accomplishment activities.
- Making employees believe that the present job is not an end but only a means for better prospects in the organization.

Self-managing teams—Self-managing teams are usually entrusted with the overall responsibility for the accomplishment of work or goal. They enjoy autonomy in decision making on matters involving when and how the work is done. They are given adequate freedom to determine the mode of execution by planning the pattern of work, distribution of assignments, rest breaks, performance evaluation and so on. However, accountability for the outcomes should be clearly defined. This method is appropriate for group activities. It is capable of providing intrinsic motivation to employees as the team members here enjoy better work autonomy and control their own work. Self-managing teams need to do a lot of groundwork to ensure the success of the whole process. The preparatory requirements for self-managing teams are as follows:

- **Work mapping**—This involves defining the boundaries of the teams clearly in terms of authority, responsibility and accountability. Each team should have a distinct identity, purpose and sphere of activities within the organization.
- **Determining the size of the team**—The size of the team contributes critically to the success of the self-managing team. The team should be neither too big nor too small. It is essential to identify the right size for the team. There are various factors that influence the decisions relating to the size of the group. They are the nature of process and products, the physical distribution of activities, the style of leadership and the rate of delivery.
- **Leadership development**—Effective leadership is critical to the success of self-managing teams. The leaders of the teams should be given training in leadership tasks, leadership styles, communication, motivation and other necessary leadership qualities.
- **Fixing the team norms**—It is essential for each team to develop rules and regulations to govern the behaviour of its members. It

should have a categorical list of do's and don'ts for its members and they should not be allowed to misuse their authorities.

Job rotation—Job rotation refers to moving employees from one job to another in a predetermined way. This enables an employee to perform diverse roles and gain exposure to the techniques and challenges of doing several jobs. An organization may adopt job rotation in two ways. One, the employee might be moved from the existing job to a new one as a part of promotion or transfer after he spends a few years in the current job. The purpose here is to offer new challenges and to avoid boredom in the job. Two, job rotation is viewed as a part of the training process. The trainee is moved from one job to another to enable him learn each of these jobs. The uses of job rotation are as follows:

- It facilitates the horizontal movement of employees to widen their knowledge and varied skills.
- It enables the organization to identify the skill deficit and training requirements of its employees.
- It enhances the interest and satisfaction of the employees in the performance of the job.
- It reduces or eliminates the boredom associated with the performance of the same job for longer periods.
- It helps in the identification of the latent talents of the employees and also in finalizing the career growth plan of each employee.

Job reengineering—Job reengineering is the process of streamlining jobs by combining a few jobs into one, redistributing the tasks among various jobs and reallocating resources. It also involves reconsideration of the methods of job performance, physical layouts and performance standards. The basic aim of job reengineering is to reduce costs, delays, absenteeism and conflicts.

Michael Hammer[17] defines job reengineering as, "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed." Job reengineering involves redesigning of each work system to make the organization more competitive in the market. It calls for radical rethinking by the organization on the existing work pattern and its task characteristics. The reengineering process involves the following:[18]

- **Pattern breaking**—This involves radically changing the existing rules and regulations to suit the conditions of the existing environment.
- **Realigning with corporate goals**—This implies revisiting the work processes to ensure that they are properly aligned with the goals of the organization. Wherever necessary, redesigning must be done in the job activities to achieve the alignment required.
- **Abolishing the power structure**—This process involves substituting the traditional hierarchy with self-managed or autonomous teams. It also involves decentralization of authority, responsibility and accountability.
- **Redesigning the work flow**—In this process, the organization should reexamine the work flow designs to ensure that they revolve around the goals and strategies.
- **Enhancing IT applications**—The developments in technological environment facilitate the application of information technology (IT) in every possible sphere of process design. Similarly, IT can also be used to enable process reengineering in an organization.
- **Redefining titles and positions**—Job reengineering may require redefining of job titles, relationships, positions and responsibilities to suit the changes made in the process.
- **Establishing a learning organization**—Job reengineering often requires continuous learning by the employees. In this regard, on-the-job training is emphasized to reduce the time taken to perform a task, inculcate quality consciousness and improve productive.
- **Redesigning performance-based incentives and rewards**—It may require a redesigning of performance evaluation techniques to assess the individual and group effectiveness. The reward structure and incentive programmes may have to be revised as a consequence of job redesign.

Job enlargement—Job enlargement transforms the jobs to include more and/ or different tasks. Its basic aim is to make the job more attractive by increasing the operations performed by a person in the job. Job enlargement techniques aim at designing jobs in such a way that the interest and needs of both the management and the employees are fulfilled. While deciding job enlargement, the organization should consider whether it wants to adopt a horizontal or vertical enlargement.

- **Horizontal enlargement**—It refers to the extent of a job containing many tasks. It involves the enlargement of duties by adding new but similar tasks. It aims at making the job low in specialization and boredom. It also attempts at developing new skills among the employees. In practice, horizontal enlargement is adopted when the tasks are complex and structured. In this method, the percentage contribution of each employee in the complete product is increased significantly. Finally, it aims at removing difficult tasks in a job to promote greater productivity.
- **Vertical enlargement—**It is the extent to which the employees decide how the task is to be done. It enables an employee to participate in the planning, organizing and controlling aspects of a task. The primary purpose of this method is to enhance the status and self-fulfilment needs of the employees. It involves the assignment of an absolute task unit to an employee. Vertical enlargement is suitable when the tasks are routine and well-structured.

Participative management—Participative management means allowing employees to play a greater part in the decision-making process.[20] It has been found to be useful in improving the quality of work life, job enrichment, quality circles, total quality management and empowerment. In fact, participative management is considered to be the panacea for the ailments of an organization.[21] In participative management, employees are allowed to participate in the strategic planning process as a part of their job. In this way, organizations make the employees feel that their views are important.

Peer performance review—Peer review is a performance evaluation technique adopted by an organization in which the employees in the same rank rate one another. Peer monitoring is one of the strategies for achieving job enrichment.[22] In this method, team members evaluate one another's performance.

In addition to this, the team members review the performance of the entire team or group. In peer review, performance evaluation becomes a collaborative and mutual process. Performance appraisal for the employees becomes more personalized and is conducted on a regular basis.

High performance work design—Developing a high performance work design is also a strategy for job enrichment. Effective work groups are created in an organization through this technique to achieve a high level of performance.[23] Certainly, a high performance system can produce the desired effects on the organizational productivity and performance. It can also achieve the required employee satisfaction and involvement. The key characteristics of a high performance work system[24] are as follows:

- Presence of highly-skilled, dynamic, coordinated and loyal employees.
- Existence of flat and flexible organizational structure and modern management practices.
- Capability of retaining experienced and skilled employees for a long time.
- Presence of full-fledged self-managed teams with adequate authority, responsibility and accountability.
- Existence of supportive rather than autocratic style of leadership and management.

- Payment system that counts on team performance but gives due importance to the skills of the individual.

Job design, which involves the integration of job content, work method and qualifications necessary to perform a job, has many uses for an organization.

Merits of Job Design

Job design has the following benefits:

- It enables an organization to develop a competent, dynamic and responsive workforce.
- It ensures that the customers get high-quality goods and services without any delay and interruption.
- It helps a firm in achieving cost reduction by eliminating the causes of accidents and injuries through enhanced health and safety measures.
- It enhances the employees' satisfaction, motivation, involvement and commitment levels, leading to improved cooperation between the management and the employees.
- It offers wide opportunities to the employees to convey their views and opinions to the management through participative management programmes.
- Its implementation often requires the employees to undergo periodic training to upgrade their skills and thus helps them in their career growth.
- It contributes effectively to the organizational effectiveness and, as a result, to the competitiveness of the organization in the market.

Limitations of Job Design

Despite several merits, job design programmes often meet with a number of challenges that affect its efficiency. Let us study them.

- Job design techniques are usually job-specific programmes. They may prove to be difficult in the case of jobs that require sophisticated technology and specialized tools and methods.
- Highly motivating jobs created out of job enrichment may cause frequent mental tiredness and stress, leading to increased absenteeism and attrition rates.
- Job design programmes were resisted by employees on the ground that enriched jobs presented more challenges and hence resulted in more mistakes and lapses. They viewed it only as job enrichment and not as a job holder enrichment programme.
- Job design techniques require managers to change their attitude and perception of the employees. They should have empathy and be ready to work sincerely to improve the job quality of their subordinates. But, managers may not be willing to spare their busy time in enriching the jobs of their subordinates.
- Employees may oppose job design when they fear reduced autonomy and loss of individual identity in the team as a result of job enrichment.
- The high cost of implementing job design programmes has discouraged many companies from adopting this technique.

Informal Organizations

The informal working relationship existing among organizational members is called informal organization. The purpose of existence of informal organizations is to fulfil the common needs of groups and their members. The needs of members of informal groups may include among others social affiliations, psychological well-being and support. The main reason for employees becoming a part of informal groups is to seek and get useful information and knowledge. This information may not usually be available in their formal or official groups. The formation of informal organizations is mostly spontaneous. Grapevine is an important communication network available in an informal organization for information gathering and dissemination. Messages are spread through grapevine to the members often by word of mouth.

The behaviour of members of formal organizations is guided by hierarchy of authority, rules, procedures and regulations and also by impersonality. In contrast, the behaviour of members of an informal organization is largely guided by unofficial norms, sentiments, rituals common interest and personality[25].

Informal organizations are mostly the hidden side of an organizational structure. The behavioural patterns of people in an organization are the indicators of existence of informal organization. Managers must identify and recognize the existence of informal organizations within their formal organizations. This is because informal organizations are capable of influencing individual commitment and motivation and the organization's performance and productivity. For both organizational and personal interest, it is important for managers to keep track of information flows within an informational organization. This information can help them to be aware of the true responses and reactions of their employees to the formal communications and recent happenings within the organization. They can also use informal organizations to replace the attitudes of hostility prevailing among members with those of trust and confidence.[26] Informal organizations have several benefits and a few limitations.

Benefits of Informal Organizations

The important benefits of informal organizations to the management are:

- Since informal communication networks (grapevine) function faster than formal communication systems, managers can use these networks to send messages quickly to the whole organization. Consequently, procedural delays, if any, in formal communication can be overcome with the help of an informal communication system.
- Managers can also discreetly use the communication network of informal organizations to present their views to the members. They can also use it to counter false and distorted messages circulated among the members.
- Informal organizations help members to develop bonds and personal friendship among themselves. This can enhance workplace cohesion, team spirit and employee morale in organizations. It can act as a forum for members to relieve their emotions and anger by allowing free and frank discussions on the management and other members.
- Informal organizations help managers to get true and unbiased feedback about their style of management. They can also listen to the views and sentiments of employees on certain crucial issues or situations.
- Informal organizations can act as effective liaison between top management and grass root-level employees. This is possible because employees are considered as individuals only. Employees' positions and status are not given any importance while forming relationship in informal organizations. Members of informal organizations can fearlessly express their opinions to the managers at all levels.
- Informal relations between managers and their subordinates may let the managers share some of their tasks and authorities informally and also in a friendly manner.

Limitations of Informal Organizations

Even though informal organizations can help the management in many ways, it is capable of causing disquiet and disturbances in organizations. We shall now look at a few limitations of informal organizations.

- Informal organizations can be used easily to mobilize members to resist the changes in the organization. Understandably, informal organizations can become a symbol of resistance to changes in the system.
- False and unconfirmed information circulated through grapevine can cause tension and frictions in the relationship between the labour and management.
- The possibility of conflict between the leaders of formal organizations and informal organizations is high as they often have conflicting and competing interests and goals.
- Social pressures on members of informal organizations may force them to confirm their behaviour more to the norms of informal organizations than formal organizations. This attitude can stifle the initiative of organizational members and also the plans of the management. The norms of informal groups may disallow the members to work up to their true potential.

Organizational structure, whether formal or informal, works within an organizational culture. In fact, organizational culture and structure are clearly intertwined. For instance, leadership styles, degree of decentralization, grievance procedure, etc. depend on the nature of organizational culture as well as organizational structure. We shall now take an overview of organizational culture.

Organizational Culture—An Overview

Organizational culture reveals the personality of an organization. Culture is usually made up of the practices, values, beliefs and assumptions held by the members of an organization. Each organization develops its own unique culture and this culture provides a sense of identity and exclusiveness to the organization. Within a culture, subcultures based on age, ethnicity, gender and regional affiliations may also exist. Cultures and subcultures shape the personality of the members of an organization by influencing their thoughts, emotions, motives, attitudes and behavioural patterns. Organizational culture creates a common understanding among the members of the organization. It also influences the behaviour of the members. However, culture as an internal environment factor, cannot be created overnight. It requires a great deal of time and efforts to form an organizational culture.

Definitions of Organizational Culture

"Organizational culture is a system of shared meaning held by members that distinguishes the organization from other organizations."—Stephen P. Robbins.[27]

"Organizational culture is the system of shared values and beliefs that develops within an organization and guides the behaviour of its members."—Edgar H. Schein.[28]

"Organizational culture is a cognitive framework consisting of attitudes, values, behavioural norms and expectations shared by organization members."—Greenberg and Baron.[29]

"Organizational culture is a set of customs and typical patterns of ways of doing things."—Porter.[30]

Characteristics of Organizational Culture

According to Chatman and Jehn,[31] the important characteristics of organizational culture are:

- Innovation and risk taking—the extent of encouragement available to the employees to be enterprising and creative.
- Attention to detail—required level of precision, detailed attention and analysis from the employees.
- Result orientation—the relative importance of results or outcomes for the management as compared to the process and techniques employed to achieve these results.
- Consideration for people—degree of importance given for "people (employees) factor" in decision making.
- Team focus—relative importance of team efforts in an organization as against individual efforts.
- Competitiveness—the degree of competitive spirit or aggressiveness displayed by employees.
- Stability—degree of importance for "status quo" in organizational planning and execution as against growth.

Importance of Organizational Culture

The role of organizational culture in the development of the business strategies and functional strategies is remarkable. Certainly, culture influences the value systems and the decision-making patterns of an organization. The primary functions of organizational culture in any organization are formalization and adaptation of decisions, combination of activities, and ensuring employee motivation and decision implementation.[32] By revamping culture and subculture, a firm can create a perfect fit between the organization and its mission, vision and goals. Thus, cultural change is important for carrying out the organizational changes. Organizational culture should be continuously improved by reinforcing those factors that form its culture. Box 8.3 shows the organizational culture at Wendt (India) Ltd.

Though culture is difficult to explain, it can be felt by every member of the organization. In fact, a newly-joined member of an organization can sense the prevailing culture when he/she observes the behaviour of other members. When the members adopt a specific form of behaviour, the new employee, for instance, tends to view the behaviour as acceptable behaviour and adopts the same. For example, in the case of safety precautions, a new employee usually follows the behaviour of the other members. Safety perception of members forms the safety culture which, in turn, influences the behaviour of all the members. When the existing culture is indifferent to safety regulation, the new member adopts that behaviour and remains indifferent to safety management.

Box 8.3
Wendt Culture—Gateway to Growth

Today, managements have begun to lay greater emphasis on organizational culture, and the contribution of culture to effective administration is now well-established. Certainly, the key to successful organization lies in the development of culture that fosters positive attitude among the managers, values the opinion of the employees, encourages team spirit, improves interdependent relationship, facilitates innovation and creativity and aids in strategic goal accomplishment. Usually, the characteristics of organizational culture are predominantly universal, except a few. Let us now look at the culture of Wendt (India) Limited—a leading manufacturer of super abrasive grinding wheels.

The salient characteristics of Wendt culture are: (i) follow the Code of Conduct in all business dealings, (ii) respect for the individual, (iii) performance and result orientation, (iv) positive attitude, (v) open communication and information sharing, (vi) concern for environment, (vii) concern for safety and cleanliness, (viii) concern for health and (ix) faith and trust. The best practices of Wendt that led to the formation of Wendt culture are self-directing teams, operational flexibility, multi-skilling, common uniform, common canteen, washroom, and 10 minutes 5S (sort, set in order, shine, standardize and sustain).[35]

Summary

1. Authority refers to the right to influence the activities of the subordinates or make decisions concerning them and to issue instructions or orders pertaining to their work.
2. Responsibility refers to the obligation or duty to complete the tasks assigned by performing the required activities.
3. Accountability makes the employees answerable for the satisfactory completion of a specific task or assignment.
4. The steps in the process of delegation are: (i) determining the need for delegation, (ii) assigning the tasks and duties, (iii) transferring authority for task accomplishment, (iv) creating responsibility and accountability and (v) ensuring followup through feedback.
5. Delegation can be classified into different types based on the characteristics. They are: general *vs*. specific delegation, formal *vs*. informal delegation, conditional *vs*. unconditional delegation, simple *vs*. complex delegation, direct *vs*. indirect delegation, and downward, sideward and outward delegation.
6. Challenges to delegation are absence of confidence in subordinates, fear of comparison, refusal by the subordinates and difficulties in justifying the surplus time.
7. When the decision-making authority is retained at the top levels of the organization, it shows the preference of the management for centralization. In centralization, top-level managers delegate little authority to the middle- or lower-level managers in the organization.
8. When the decision-making authority is delegated to the people at the lower levels of the organizational structure, it shows the management's preference for decentralization.
9. Job design is basically a combination of the job content and the work method adopted in the job.
10. The critical components of job design are job enrichment, self-managing teams, job rotation, job reengineering, job enlargement, participative management, peer performance review and high performance work design.
11. The informal working relationship existing among organizational members is called informal organization.

Review Questions

Short-answer questions

1. Define the terms authority, responsibility and accountability.
2. How will you delegate authority effectively?
3. Distinguish between general delegation and specific delegation.
4. Write a note on downward, sideward and outward delegation.
5. State the advantages of delegation of authority.
6. What do you mean by job design?
7. Differentiate between horizontal enlargement and vertical enlargement.
8. Define the term organizational culture.
9. State how the extent of decentralization is measured in organizations.
10. State the guidelines for measuring the extent of decentralization in organizations.

Essay-type questions

1. Enumerate the process of delegation of authority and responsibilities with relevant examples.
2. Discuss in detail the different types of delegation with suitable examples.
3. Why is delegation necessary? State the challenges facing effective delegation.
4. Evaluate the merits and limitations of centralization in detail.
5. How far is decentralization superior to centralization of authority?
6. Discuss the critical components of job design in detail.
7. Examine the characteristics and importance of organizational culture.
8. Enumerate the strengths and weaknesses of informal organization.
9. Distinguish between centralization and decentralization of authority.
10. Authority without responsibility is dangerous. Substantiate.
11. Responsibility without authority is meaningless. Prove.
12. Why do managers dislike delegating tasks in organizations?

Case Study

The Consequence of Faulty Job Design

Aravind Suiting is a global textile has presence in company based in India. The company more than 35 countries. It has succeeded in getting a decent share in an increasingly competitive global market. It has employed more than 5, 800 employees. This company always views its employees as its strength and as the secret of its success. It has got several HR practices oriented towards employee satisfaction and motivation. The uniqueness of the HR practices of this company are: (i) its accent on extensive training programme for its employees during their probationary period of two years; and (ii) its compensation packages, which are excellent for the industry. The HR department of the company is managed by Mr Ravi Varma, a post-graduate in human resource management.

However, the company has been plagued by quite a few HR-related problems in the recent past. One of them is the high rate of attrition witnessed by the company, especially among the employees promoted to the higher positions in the organization. Some other recently promoted employees were asking for reversals to their original positions. Apparently, the company was perplexed by the developments as the employees leaving the organization were indeed performing activities critical to the organization. The company took the matter seriously and was determined to identify its reason. It appointed a team of HR experts to look into the issue and suggest necessary remedial measures.

The team approached all the employees who were leaving the organization and conducted an exit interview to ascertain the reason for their quitting the firm. It also interviewed the employees who applied for reversals to their previous positions. Similarly, it interviewed all the existing employees in that cadre as on that date. Finally, it went a step ahead and contacted the employees who had already left the company in the recent past and elicited their views on the different aspects of employment and the reason for leaving.

Shockingly, almost all the employees spoke negatively about their job. They also informed the team about the presence of an anomaly in authority, responsibility and accountability. A number of them perceived a lack of fit between the level of authority and responsibility. They opined that the job carried too huge a responsibility but provided little authority for the job holder. They also revealed that the lack of demarcation of job authority of different employees often led to misunderstanding and quarrels with their subordinates. Several employees felt that the compensation package was not commensurate with the difficulty and accountability of the job. Based on its interviews with the present and former employees, the team of HR experts prepared a report and presented it to the top management. The report squarely blamed the job analysis report (that had been made earlier) and the resultant HR practices as responsible for the present situation. It held the job analysis report as poorly investigated and drafted. The HR manager was asked to respond to the report and present his own report about the situation. In his report, the HR manager cited the lack of cooperation of the employees for job analysis exercises as the reason for inaccuracies in the job analysis report. However, he strongly defended the methods and techniques adopted in the job analysis process.

Finally, the company decided to undertake a fresh job analysis for all the job titles and integrate the information with the HR practices by revising these practices thoroughly. An external HR consultancy agency with relevant expertise in job analysis was hired this time to prepare the job analysis report even though it charged a high fee.

Questions

1. How do you view the developments in Aravind Suitings from your perspective?
2. Do you agree with the findings of the team of HR professionals regarding the recent spate in employee resignations and requests for reversal?
3. What is your response to the report of the HR manager blaming employees for the defective job analysis report?
4. Do you have any alternative suggestions for controlling attrition in the organisation?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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PART IV:

Staffing

CHAPTER 9

Human Resource Management—Processes

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning of human resource management
2. Enumerate the characteristics and objectives of human resource management
3. List the steps in the process of human resource management
4. Understand the meaning and process of HR Planning
5. Explain the meaning and sources of Recruitment
6. Enumerate the process of selection
7. Understand the Meaning and methods of training
8. List the methods of management development
9. Present an overview of induction process
10. Explain the meaning and types of compensation
11. Understand the meaning and objectives of performance evaluation
12. Describe the performance evaluation methods

India's Inspirational Managers

Adi Godrej is the chairman of Godrej groups, one of India's leading business conglomerates. This group has achieved an annual turnover of over US$ 4.1 billion (2015) through its presence in nearly 60 countries. Under Adi Godrej's stewardship, Godrej groups have won several accolades for their effective human resource practices. For instance, Godrej Consumer Products Limited (GCPL) is ranked as one of the Best Employers of India in Aon Hewitt's Best Employers List 2018. Similarly, GCPL features in the Top 25 list of "Great Places to Work" in a survey conducted by Grow Talent in association with *Businessworld* for four years in a row. Adi Godrej firmly believes that people are the biggest asset in any product-oriented industry and "all corporate strengths are dependent on people." His unequivocal emphasis that "nothing comes before ethics and quality" is the essence of the group's management philosophy. The unique human resource initiatives of Adi Godrej include among others: (i) formation of a Young Executive Board (YEB), essentially a cross-functional team, that works on strategic issues like corporate structure and performance management, and reports directly to its chairman, (ii) GOLD (Godrej Organization for Learning and Development) programme—a Web-based learning programme for its workforce in association with UK-based NetG, (iii) standardized 360-degree programme where employees can give anonymous feedback, (iv) best performance award and merit award to recognize the talents of the employees, (v) national suggestion scheme day, and (vi) GALLOP—a programme for new management trainees and GURUKUL—a summer internship programme.

Adi Godrej's success through HR-based initiatives provides a fitting introduction and right surrounding to a discussion on human resource management in this chapter.

Introduction

Staffing function of managers involves effective utilization of human resources (HR) towards organizational goal accomplishment. Herein, HR refers to the knowledge, education, skills and proficiency of the employees. As a part of staffing function, line managers usually perform recruitment and selection, training and development, orientation and placement, performance evaluation, and industrial relations maintenance activities of their department. Line managers may perform these HR-related functions independently or in active consultation with the HR managers depending upon the size, policies and practices of the organizations. In relatively smaller organizations, staffing functions are mostly carried out by the line managers themselves in the absence of a separate HR department. In case of large organizations, HR departments are mostly responsible for staffing functions. They consult and advice the line managers on matters relating to HR management in their respective departments.

The general perception among people is that effective utilization of human resources is a difficult task. This is because the behaviour of human beings is not identical and as such is difficult to be regulated through common policies and practices. In organizations too, employee behaviour may differ from one occasion to another and from one time to another even in identical situations. Obviously, HR management is a complex and specialized task.

Characteristics of Human Resource Management/Staffing

Basically, HRM is one of the primary managerial functions of the managers. In fact, all other managerial functions such as planning, organizing, directing and controlling can be carried out only through the staffing function. Thus, the HRM function of a line manager is mainly concerned with the management of the work life of the subordinates. The important characteristics of HRM/staffing are as follows:

- **Managerial function**—Staffing is a managerial function performed by managers along with all other managerial functions. Managers make several decisions as a part of their staffing function that includes selection, promotion and performance evaluation of their subordinates.
- **Continuous activity**—In every organization, staffing is performed by managers at regular intervals. As such, it is an activity that is performed continuously through the life of an organization.
- **All-inclusive activity**—The staffing function pervades through the entire organization and is performed by all the managers. Similarly, it is a universal activity because human resources are necessary for any form of organization.
- **Liaison task**—Through staffing, managers act as the link-up between the top management and the employees, especially for their own subordinates. Actually, they should care for the interest of both the management and the labour in all their activities.
- **A process**—Staffing is basically a process because it is typically performed through an established and routine set of procedures. Managers usually follow certain established policies and procedures for HR functions, such as recruitment, selection and training of employees.

Employees' capabilities and performance are the critical determinants of the survival and growth of organizations, irrespective of their nature and size. Therefore, managers must ensure that employees are carefully recruited, properly trained, appropriately rewarded and accurately evaluated in their jobs and are nurtured well in the organization.

Objectives of HRM/Staffing

The main objective of human resource management is to take care of the work life of employees from the time of their joining the organization to the time of their leaving it. Managers must also ensure that they get the best possible and willing cooperation from the employees for the fulfilment of organizational goals and objectives. The specific objectives are as follows:

- To ensure the presence of adequate human resources in the organization and also its effective utilization to fulfil the organizational goals.
- To recruit the right persons for the right jobs at the right time at the right cost.
- To offer training to employees to develop their skills and performance so that the individual and organizational objectives are effectively accomplished.
- To evaluate the performance of the employees to determine and reward their job efficiency.
- To improve employee motivation, group morale and labour–management relations through the implementation of employee welfare schemes.
- To protect and promote the quality of work life of employees through necessary employee health and safety measures.
- To encourage ethical values and behaviour, and also socially-responsive actions among the employees.
- To develop a sense of team spirit, team work and collaborative attitude among the employees.

HRM Process

HRM function can be performed entirely by line managers or by HR managers in consultation with the line managers. In any case, the role of line managers in the HRM functions is indispensable. The HR functions usually include activities such as procurement, training and development, induction, compensation, evaluation, integration and retention of the organizational workforce. Besides, managers should also attend to the health and safety needs and disciplinary issues of the employees as a part of HRM. We shall now discuss these functions. Figure 9.1 shows the process of HRM.

Procurement—It is the first step in establishing an employment relationship with an individual. Procurement involves a series of activities undertaken by the managers for filling the existing and future vacancies of the organization. This process includes activities like job analysis and designing, HR planning and recruitment and selection of the right persons for the right positions. Job analysis involves the determination of specific tasks and responsibilities associated with a job and also the identification of the skills, knowledge and abilities required for the job holder. Human resource planning refers to the plans involving the estimation and determination of the number and nature of persons required for filling the available job vacancies. Recruitment involves gathering a pool of applicants from which suitable employees may be selected at the appropriate time. Selection involves screening, testing, interviewing and choosing the most suitable employees for the organization.

Training and development—Training refers to the planned process of modifying the skills and behaviour of non-managerial workers to achieve effective performance in an activity or range of activities.[1] Training is normally a short-term programme to help workers overcome their skill deficits. Training generally focuses on the present job of the workers. In contrast, development is actually learning for the overall growth of an individual and does not normally relate to any particular job. Development may be defined as an attempt to improve the managerial effectiveness through a planned and deliberate learning process.[2] It is a long-term process meant to improve the analytical and decision-making abilities of managers. However, the purpose of both workers' training and management development programme is to improve the employees' performance in their job through improved knowledge, skills and abilities (KSA).

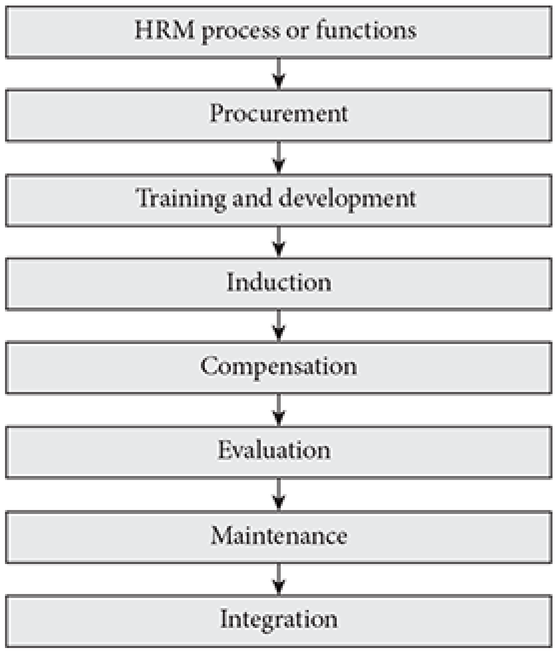

Figure 9.1
The Process of HRM

Induction—It is a planned and systematic process, administered by the management to help employees settle in their new job promptly and effectively.[3] It is the first step in building a two-way relationship between the organization and the workers. An effective induction process facilitates the new employees to: (i) develop friendly relationship with the colleagues, supervisors and managers, (ii) become familiar with new processes, systems and equipment, (iii) navigate offices and buildings, (iv) understand employment conditions and (v) learn the job. The induction process usually involves orientation, socialization and placement. Orientation is the systematic process of offering essential information to new employees. Socialization means the process of exposing the new employees to the organizational culture and integrating them into it. Placement refers to the process of determining the exact job to which an accepted candidate is to be assigned.

Compensation—It means the fixation of the pay scale and other benefits for the employees. It is one of the crucial functions of the managers because it directly influences the costs of the organization. Similarly, compensation policy is also capable of offering maximum satisfaction to the employees. Therefore, it must serve the interests of both the employers and the employees. It must also reflect the realities of the organization, industry and the labour market. The effective compensation system must align well with the organizational objective and employee performance evaluation results.

Evaluation—It involves the evaluation of the individual and group performance of the employees of the organization. Performance evaluation is a systematic, periodic and impartial rating of an employee's excellence in matters pertaining to his/her present job and his/her potential for a better job.[4] It involves the process of measuring an employee's actual performance and then comparing the same with the estimated standard performance to know his/her efficiency. Organizations can choose their own way of evaluating their employees' performance and these can be both formal and informal.

Maintenance—It refers to the retention of able, efficient and experienced employees in the organization. Managers must not only recruit talented employees but also retain them in the organization for a reasonably long period of time. This is because their successful retention is critical to the long-term success and health of the business. When the employee attrition rate (number of employees leaving the organization) is high, organizations may suffer on account of high and repeated recruitment and training cost, lost knowledge, insecure feeling among employees and production disturbances. In contrast, organizations with high employee retention rate will enjoy high customer satisfaction levels, positive employee morale and consistent organizational performance and productivity.

Integration—It involves the process of aligning human resources with the business and its strategies. Human resources are central to the implementation of organizational goals and objectives. Cooperation and commitment of the employees are vital for organizations in acquiring the required capabilities and performance. It is therefore essential for managers to establish mutual cooperation and commitment by ensuring cordiality in their relations with the workers. In this regard, managers must ensure perfect integration between the human resource management processes and the organizational processes to achieve harmonious industrial relations. Maintenance and Integration are discussed elaborately in chapter-10. We shall first discuss the procurement function of HRM in detail.

Procurement

The basic aim of managers in performing Procurement functions is to ensure that they get the right persons for the right job at the right time and cost. We shall now see how managers get the required number of persons with the required competency and how their skills and abilities are further developed. The process of choosing people in organizations normally begins with HR planning followed by recruitment and selection. Let us discuss them in detail.

HR Planning

Human resource (HR) planning is the process of identifying and matching the HR requirements and HR availability in order to determine the future HR activities of an organization. Human resource planning is the first step in the process of recruitment and selection of employees. HR planning process involves the estimation of future manpower needs of an organization and meeting those needs through the labour force available to it. The three basic objectives of any HR planning are: (i) attracting, developing and retaining an efficient workforce, (ii) evaluating and rewarding its performance and (iii) developing and controlling HR plans and programmes to reduce HR cost. However, the direct and immediate purpose of human resource planning is investigating, forecasting, planning, controlling and matching demand and supply of manpower.[5]

Broadly, HR planning is affected by two important factors—the HR requirements of an organization and its availability within and outside the business. With regard to HR requirements, the role of human resource planning is the estimation of the number and nature of people needed for the accomplishment of a firm's goals and strategies. As regards the HR availability, the task of human resource planning is to scan the environment to identify the availability of people with relevant skills.

Human Resource Planning Process

Human resource planning is an ongoing process for an organization to manage the changes in its internal and external environment on a sustained basis. The basic elements involved in human resource planning process are jobs, time, persons and funds.[6] It is a continuous process because the changes in these elements are never ending. One such instance would be the entry and exit of employees. Employees might periodically leave a firm on account of retirement, resignation or death. Similarly, new employees might join on account of the vacancies caused by the quitting employees, expansion programmes undertaken, etc.

Although each organization should develop a tailor-made HR plan process to meet its own specific needs, the process shown in Figure 9.2 can be adopted by any organization by making necessary modifications. We shall now discuss the steps in HR planning in detail.

1. **Formulation of organizational objectives and strategies:** The first step in the HR planning process is the formulation of organizational objectives and strategies. The organizational strategy, along with the mission and vision statement, clearly expresses the future intent of the organization. The examination of the organizational strategy would provide a clear indication about the future HR requirements of the firm. Thus, HR plans are guided by the overall organizational objectives and strategies.
2. **Scanning the environment:** The basic purpose of environmental scanning is to examine the business environment to utilize the emerging opportunities and to tackle the threats. Environmental scanning involves the collection of information in the form of statements, actions and responses of people associated with the environment. This information is then closely scrutinized to figure out the likely changes in the environment. The important external environmental factors are: economic situations such as economic boom and recession; legislative measures such as labour and industrial laws; labour market conditions; technological advancements such as introduction of new technology and changes in the characteristics of workforce including the organization's social–demographic profile.
3. **Preparation of in-house skills and competencies inventory:** In this phase of HR planning, an organization must assess the present strength of its labour force by preparing a skills inventory. A compilation of skills, competencies and qualifications of the entire workforce is described as skills inventory. The preparation of skills inventory may involve the determination of the sum of employees' experience, knowledge, education and skill levels.

The skills inventory can be prepared with the help of (i) skills audit—involving assessment of the performance of the employees from the task perspective and (ii) core competency analysis, which is basically an internal analysis of the general strengths and weaknesses of a firm. Core competencies are some extraordinary abilities of a firm that enable it to acquire competitive advantage in the market. It may be advanced technology, well-reputed management, problem-solving ability, employees' knowledge, skill and ability (KSA), etc.

4. **HR forecasting—a need assessment:** HR forecasting involves estimating the future requirements of the organization in terms of the nature and number of people. Information gathered through external environmental scanning and internal skills assessment is used to predict the future HR requirements of the organization. However, HR forecasting usually depends on an organization's estimation of future demand for its goods or services in the market and the resultant profits. In addition to demand forecasting, an organization may also consider several other factors like management philosophy, absenteeism and labour turnover rates, the organizational growth pattern, planned technological improvements, proposed changes in product lines and the financial capabilities for forecasting HR requirements.[7]

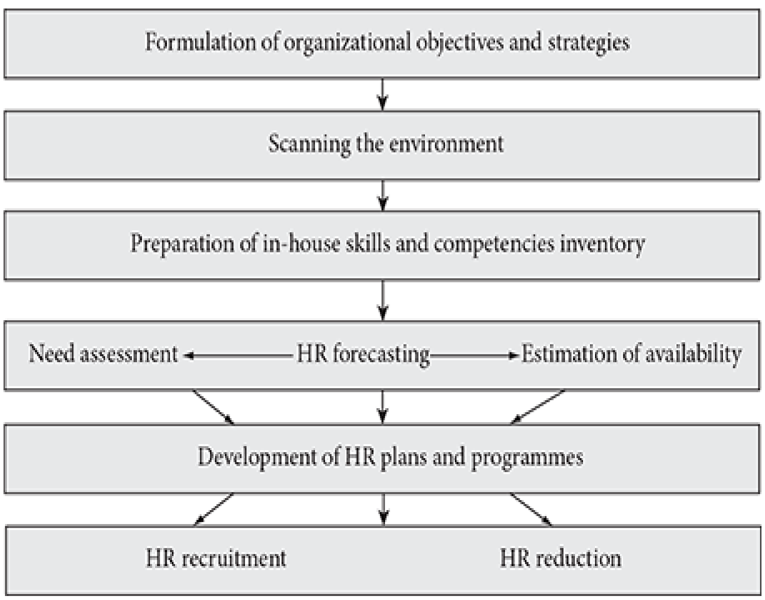

Figure 9.2
Steps in the HR Planning Process

An organization may use one or more of the available forecasting techniques for assessing the future HR requirements. Techniques for forecasting HR requirements are the Delphi technique, managerial judgment, work–study techniques and zero-base forecasting.

The Delphi technique is basically a group-based systematic forecasting method. This technique does not require any face-to-face participation by the experts.

Managerial judgement is a forecasting method in which the HR requirements are usually forecast by the senior managers of the organization.

The work–study technique aims at examining the business operations to achieve optimum utilization of available human and physical resources. The major purpose of the work–study technique is to improve employees' productivity and organizational efficiency.

Zero-base forecasting is a new entrant in the existing series of techniques available to forecast the HR requirements of an organization. This method requires line managers to justify the need to continue with the positions or jobs that fall vacant in their department. It does not consider any position as eligible for routine continuance.

HR Forecasting—Estimation of Availability

Once the human resource requirements of the organization are assessed, the next critical process is the estimation of availability of the required number of employees. Through supply forecasting, an organization gets a fairly good idea about the availability of employees with the necessary Knowledge, Skills and Ability (KSA). It also helps in locating the sources with suitable persons for employment. Usually, organizations have two prominent sources to meet their recruitments. They are internal sources and external sources.

Internal supply of employees—Internal supply refers to the availability of employees within an organization. The existing employees are the main source of recruitment for an organization. Techniques for forecasting HR availability through internal sources are turnover rate, productivity level, overtime and absenteeism policies and succession planning.

External supply—Generally, organizations get a major chunk of their HR supplies from external sources. While determining the HR availability from the external sources, organizations should consider factors like demographic changes, technological developments, labour characteristics, trends in mergers and acquisitions, government rules and regulations, attitude of unions, deregulations, income tax rates, labour mobility and phase of economic cycle like depression or boom.

Development of HR Plans and Programs

Once the organization completes the process of forecasting HR requirements and HR availability, the next step is the comparison. Here, the HR requirements are compared with HR availability to identify the labour shortage or surplus. The outcome of such comparisons would be either recruitment of more employees or reduction of the existing workforce called decruitment. In any case the first prerequisite for successful HR planning is job analysis. We shall therefore discuss job analysis briefly before discussing recruitment and selection.

Job Analysis

Job analysis is the process of gathering relevant information about various aspects of a job including its content, context and job performer's skill requirements. Job analysis specifies the tasks involved in a job and the factors that influence the performance of that job. Job analysis has applications in almost all HR activities of an organization. In reality, the job analysis process involves ascertaining what people do at the job and understanding why and how they do it. This will enable organizations not only to identify the problems but also to develop solutions. As such, the primary purpose of job analysis is to provide solutions to practically all employee-oriented problems in an organization.

Job Analysis Process

Job analysis is the process of breaking down a specific job into parts and scrutinizing each part to gather necessary information. The steps involved in the job analysis process are: (i) determination of the purpose of job analysis, (ii) gathering of background information about the job, (iii) choosing the representative jobs for analysis, (iv) collection of relevant job information, (v) review of gathered information and (vi) development of job description and job specification.

Job Description

Job description is a written statement that describes all aspects of a job. It aims at simplifying and standardizing an organization's HR activities. It also enables employees to clearly understand what is expected of them in their job. It contains both organizational information (structure, relationship, etc.) and functional information relating to the job.

Job Specification

Job specification is a document that specifies the minimum acceptable qualities required for a person to complete the job satisfactorily. Job specification usually contains details of employee characteristics and qualifications important for a job. Job characteristics may include physical, mental, social and behavioural characters of the job holders. The qualification may include education, experience, skills and other background requirements for a job holder. Job Description and job specification help in recruitment of suitable persons for the jobs.

Recruitment and Decruitment

The primary task of human resource management is locating and reaching out to the right people and motivating them to offer themselves as prospective job aspirants. In this regard, recruitment provides the first contact for the company with the potential employees. Recruitment may be termed as a search for promising job applicants to fill the vacancies that may arise in the organization. Decruitment means the process of reducing an organisation's workforce. Managers usually decruit employees when there is surplus labour force. The different forms of decruitment are removal (dismissal or discharge), lay-off, transfer early retirement, etc.

Sources of Recruitment

Developing different sources of recruitment is essential for building a large applicants' pool, However, there is no single combination of resources and methods that will work well for all organizations or for to be noted all labour markets, or even within a labour market.[8] Hence, an organization should use multiple recruitment sources to build its applicants' pool.

Internal Sources

Internal recruitment refers to filling open jobs with the current employees of the organization. Internal sources normally consist of existing employees, past employees and employee referrals.

Existing employees—The most common source of internal recruitment is the existing employees. Promotions and transfers from among the existing employees are examples of internal sources of recruitment.

Former employees—Past employees are also considered as an internal source of recruitment because they are aware of the policies and practices of the organization. Further, they enjoy familiarity with the present employees.

Employee referrals—Under this method, the present employees provide information on prospective candidates who are willing to be considered for the present vacancies. The applicants may be the friends or relatives of the referring employees.

External Sources

External sources of recruitment refer to reaching out to the external labour market to meet the labour requirements. The important external sources are as follows:

Employment exchanges—Employment exchanges have been established by the government to act as a liaison between the job providers and job seekers. The twin tasks of employment exchanges are to help employers locate suitable candidates for the vacancies arising in their organization and the job seekers with information about such job opportunities.

Outsourcing recruitment consultants—
Transferring the whole or some parts of the recruitment process to an external HR consultant providing recruitment services is called outsourcing recruitment. In recent decades, there has been a sizeable increase in the number of private employment agencies providing

qualified applicants to the private organizations in need of them.

Advertisements—Printed advertisements are the preferred mode of external recruitment for several reasons. As printed advertisements reach many people in a short period of time, the vacancies can be quickly communicated to the potential candidates.

Campus recruiting—When company representatives are sent to college campuses to recruit applicants to create an applicant pool from graduating classes, it is called campus recruiting.

Walk-ins and write-ins—When applicants directly write to the organization or just walk into the office to state their interest for employment, it is called write-ins and walk-ins. Walk-ins may be self-initiated or in response to an advertisement in newspaper placed by the organization.

Internet recruiting—Internet recruiting refers to placing an advertisement on the Internet calling for applications from potential applicants to fill the vacancies specified. Organizations can also use computers to scan, digitize and process the applicants' resumes automatically. Electronic Curriculum Vitae (CVs) are used in Internet recruiting to collect information about the candidates.

Raiding or poaching—Raiding or poaching refers to attracting the employees of the rival organizations with attractive offers. Organizations may directly or indirectly contact the talented employees of their rival organization and gradually persuade these employees to join them. The selection process begins after the potential applicants are identified and successfully persuaded to apply for job positions.

Selection

Selection is the systematic process of identifying suitable candidates for the jobs available in the organization from the available applicant pool. The aim of this process is to finally select candidates who are best suited for the vacant jobs.

A good selection process must be able to distinguish applicants who are likely to perform well in the job from those who are not. Various steps are adopted by an organization in the selection process to predict the likely performance of each applicant in the job The steps are:

1. **Employment application form/blank**—This is a standardized format used to collect necessary information about an applicant to determine his/her suitability for the job. The purpose of an application form is to collect necessary information about an applicant in a short span of time. These bits of information are extremely useful in determining the suitability of the applicants for the job.
2. **Selection test**—This is a psychological test for comparing and contrasting the behaviour of two or more persons based on a standardized measure to predict their likely job performance, if selected. The important types of selection tests are: Intelligence (IQ) test, Aptitude test, Achievement test, Personality tests, Interest test and Honesty or integrity test
3. **Selection interview**—This is a face-to-face conversation with the candidate to collect the required information to determine his/her suitability for a job. Selection interview is one of the most widely used means of collecting necessary information about applicants. Interviews are used for gathering information that could not be collected through other selection tools.
4. **Reference check**—The next step in the selection process is checking the references furnished by the candidates. Many organizations have reference columns in their application forms. They instruct the applicants to mention a few names as referees. The purpose of collecting such references is to crosscheck the information provided by the candidates in different stages of the selection process.
5. **Physical examination**—It is a medical test to ensure that the selected candidates meet the physical requirements of the job. The aim of this examination is to make sure that the selected candidate is physically fit for the job.
6. **Job offer**—A job offer is a formal communication from the employer to the selected candidate, which specifies the details of an offer of job. Once the employee positively responds to the offer of employment, the process of integrating that employee into the job is set in motion. This process usually begins with training programmes for the new entrants.

Training

Training is the process by which an employee acquires the necessary knowledge and skills to perform the job well. Training plays a vital role in enhancing the efficiency, productivity and performance of the employees. In fact, a company’s strategic goals usually form the basis for its training programmes. Training typically comprises predetermined programmes to achieve desired performance efficiency at various levels, viz., individual, group and organizational.

Training is usually a short-term skill development exercise meant for non- managerial employees either to learn a job or to overcome the deficiency in the performance of the present job. The success of any training programme is in recognizing the training needs and then designing training programmes based on those needs.

Methods of Training

A wide range of training methods is available to an organization to deliver training to its employees. As shown in Figure 9.3, training methods are broadly divided into two categories: namely, on-the-job training and off-the-job training. We shall discuss these training methods now.

On-the-Job Training Methods

In these methods, employees learn their job by actually doing it. The basic idea of this kind of training is to transfer skills and knowledge from an experienced employee to a new employee, while sustaining the productivity of both employees. The various kinds of on-the-job training methods are as follows:

- **Apprenticeship training—**In this method, the superior becomes the instructor and imparts knowledge to the trainees (called apprentices) at the work spot.
- **Job rotation—**In this method, employees are moved from one job to another just to widen their skill, knowledge and experience. Job rotation training programmes aid employees in acquiring multiskills to manage their jobs comfortably.
- **Internship**—Internship is concerned with gaining supervised practical experience As a training technique, it permits participants to combine the theory learned in the classroom with business practices.
- **Job instruction training—**The step-wise process of imparting training to employees is called job instruction training. In this method, all the necessary steps in the job, together with brief write-ups about each step, are compiled sequentially. Each step would have a corresponding self-explanatory note. Each note would explain what needs to be done, why it has to be done and how it has to be done.

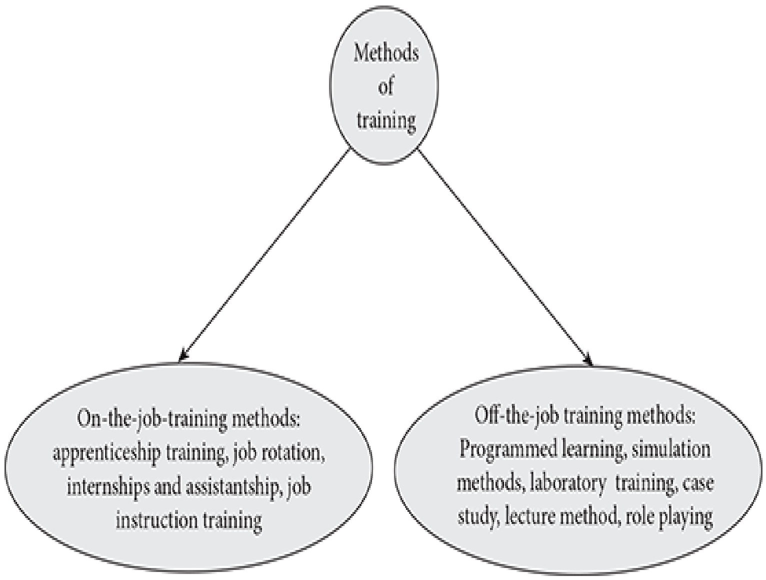

Figure 9.3
Methods of Training

Off-the-Job Training Methods

In these methods, workers are given training at a place away from their usual workplace. This place could be a classroom or a training centre. The purpose of off-the-job training methods is to minimize distractions to the trainees. The following training methods are broadly regarded as off-the-job training methods:

- **Programmed learning—**In this method, trainees are made to reply to job-oriented questions, problems, concepts, cases and facts. As soon as this process is over, they are provided with feedback. The basic purpose of this method is to give sufficient information to the learners and then test their authority over the subject matter.
- **Simulation method**—In this method, the trainee gets trained either on the actual or on the simulated equipment but only in an off-the-job mode. The trainers review the performance, prepare the reports and make them available to the trainees.
- **Laboratory training**—This method is also called sensitivity training or T-group training. This training is typically organized for a small group of trainees who are normally not familiar with one another. It is organized under the supervision of seasoned trainers. Sessions are organized to let trainees meet personally to share their feelings, opinions, attitude, perceptions and values.
- **Case study**—In this method, trainees are provided with necessary information in a case study format. They are then expected to come up with decisions based on their understanding of the given cases. The case studies may deal with the activities of an organization or with the specific problems faced by it.
- **Lecture method**—This method is also called the chalk-and-talk method. This is a traditional method of imparting knowledge to a large number of trainees at the same time. It is a verbal form of delivering information in a classroom environment.

- **Role-playing**—Role-playing refers to acting out a particular role. This method is simply the learning-by-doing technique. The trainee, responds to the particular problem by acting out real-life situations. As mentioned earlier, training is meant for promoting non-managerial employees whill managers are provided with all round development.

Management Development

Management development is the process of upgrading the competencies of the managers through relevant learning experiences. The managerial job often involves decision making based on the knowledge of the latest developments in the related fields and excellent analytical skills. Managers cannot adopt a trial-and-error approach while making their choices in decision making. This is because their decisions may even affect the survival and growth of the organization. Thus, the sustained development of the capabilities of the managers is essential for accomplishing the goals of the business.

Management development programmes help organizations to make their managers better fit for existing and future managerial positions. Management development is a long-term process by which the managers' conceptual knowledge and competencies are developed.

Methods of Management Development

The development programmes for managers usually include job rotation, internships, programmed learning, simulation method, laboratory training, case study, lecture method, audio–visual methods, role playing, business games, coaching, behaviour modelling, in-basket training, action learning, university-based programmes, executive coaches, in-house development centres and executive orientation. Let us now see the methods not discussed earlier in methods of training.

Mentoring—Mentoring refers to teaching by an intelligent and trusted guide and advisor. Mentoring, as a concept, aims at enhancing the personal and professional competencies of trainees through the process of advising and coaching.

Business games—The primary goal of business games is to ensure the involvement of the trainees in the learning process. In the business games technique, the trainees form teams and assume managerial roles in two or more imaginary but rival companies. These teams operate in a realistic but simulated situation and compete against one another. This method ensures that the trainees learn to take decisions without fear of the consequences of a wrong decision.

Coaching—Coaching refers to teaching and supervising someone. In the coaching method, senior managers are made responsible for coaching and developing the trainees who work directly under them.

Behaviour modelling—In this method, managers learn by imitating the behaviour (called a model) of others. The behaviour model enables the trainees to learn the right way of behaving in different situations. It is considered to be an ideal method for acquiring relevant skills and knowledge from others.

In-basket training—In-basket training is a development technique which educates trainees about the techniques of prioritizing the situations that await their responses. It helps managers in prioritizing the numerous business papers, reports, emails and telephone messages before acting on them.

Action learning—It is a development technique that allows trainee managers to work on the problems of some other departments and not on those of their own department. The basic idea behind this technique is to help managers widen their sphere of knowledge and get expertise in different fields. This method helps an organization to improve its in-house transfers and promotions of its managers.

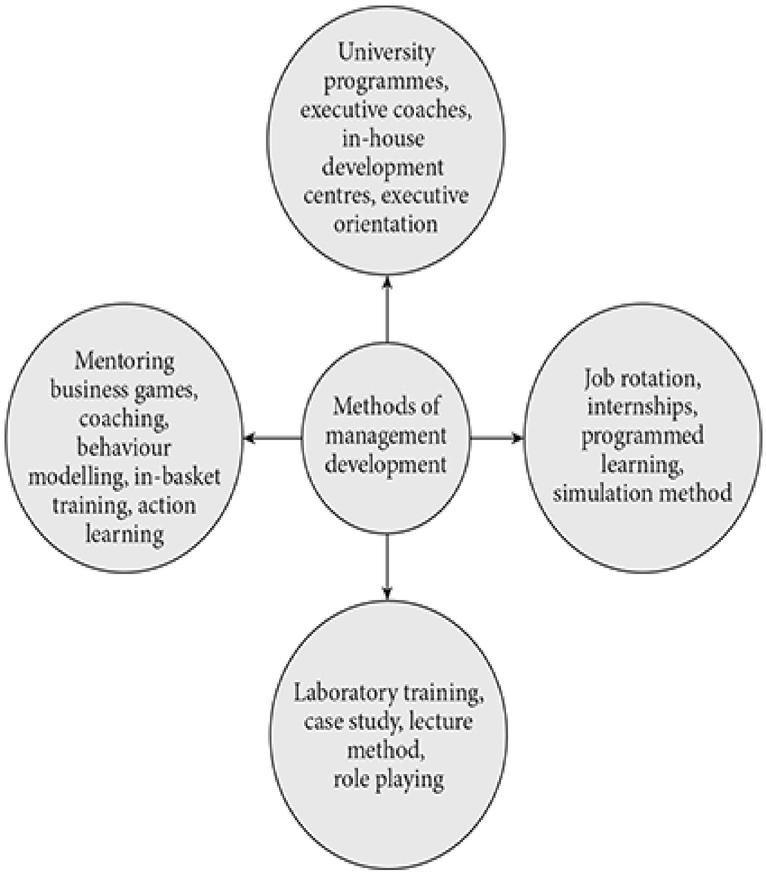

Figure 9.4
Methods of Management Development Programmes

University-based programmes—In this method, managers seek to develop knowledge by joining the programmes offered by universities, colleges and centres of excellence like the IIMs and the IITs.

Executive coaches—It is a programme of one-to-one collaboration between a certified external coach and a manager. Through executive coaching, managers improve their leadership skills, gain new perspectives and reach maximum potential. Executive coaching is acknowledged as an important element of standard leadership development programme for top-ranking executives.

In-house development centres—Large companies are establishing their own in-house development centres to develop the required skills and knowledge among their employees. It is a technique for exposing future managers to practical training courses so that they can enhance their managerial competencies.

Executive orientation—Executive orientation is the technique adopted by an organization to assist its new managers in learning the firm's structure, culture and practices as soon as possible.[9] After training, employees are finally made ready to take up their new rules in the organisation through induction process

Induction

Employee Induction is a process adopted by organisation to welcome new employees and prepare them for their new job responsibilities. It is actually a three stage process. These are orientation, socialization and placement. we shall now discuss them briefly.

Orientation

Employee orientation is the systematic process of offering essential information to new employees to make them feel comfortable in the organization. Employee orientation is a crucial stage in the hiring process of an organization. The newly-joined employees get a first impression of the organization through the orientation programmes. In orientation programmes, employees are usually briefed about the history of the firm, organizational culture, values and attitude, management's expectations, job and department details and product or service information.

Socialization

Socialization is the process of introducing or integrating the new employees into the organizational culture. In simple terms, it is a process by which new employees learn the organizational culture. While orientation and placement are concerned about the smooth integration of employees into the job, socialization aims at inculcating suitable values, culture and behavioural standards in them.

Placement

Placement is the process of finding an appropriate fit between people and positions in an organization. It is actually the determination of the job to which an accepted candidate is to be assigned, and his/her assignment to that job.[10]

Once an employee successfully completes the stipulated orientation, he is next placed in the job. Based on the employees' work performance and behaviour in the orientation programme, organizations choose not only appropriate jobs but also appropriate supervisors for placing the employees.[11]

The next major HR function to be performed by managers is the determination of compensation payable to new and existing employees.

Compensation

Compensation is the sum of rewards for the job-related efforts of the employees and for their commitment and involvement in the job. Compensation administration is always a difficult issue for managers in the management of human resources. They often struggle to develop compensation packages that satisfy the interest of both the organization and the employees. Modern management no longer views compensation as merely a reward for the work done by the employees. It considers compensation as an effective tool to accomplish both the organizational and individual needs in a systematic and satisfactory manner.

Types of Compensation

Typically, an organization provides compensation to its employees in two forms. They are direct compensation and indirect compensation. We shall now discuss direct and indirect compensations.

Direct compensation—Direct compensation normally includes the amount payable to the employees as direct cash rewards for the work done by them. This compensation may include any form of monetary benefit payable to the employee at periodic intervals. Basic pay and variable pay are the important components of direct compensation. We shall now briefly discuss them.

Basic pay—This is the basic salary received by the employee as a direct compensation for the work done by him/her. It is a fixed component in the compensation and it often forms the basis for the computation of variable components like bonus and other benefits.

Variable pay—This is a pay which is basically linked to the performance of the individual, group or the organization. Variable pay may include incentives, commissions, profit-sharing, gain-sharing, and bonuses. We shall now discuss the important components of variable pay.

- **Profit-sharing**—In this variable type of pay, an organization distributes a part of its profit to its employees. An important form of a profit-sharing plan is the bonus plan, in which the employees get a share of the profit at the end of the year.
- **Gain-sharing**—In gain-sharing, compensation is determined on the basis of the group or organizational performance. Normally, savings in costs, increase in quality, productivity, and customer satisfaction are the measures used sharing the gains made by the organization.
- **Equity plans**—Equity stock option plans (ESOPs) offered by companies are also one of the direct compensation schemes. The purpose of ESOPs is to create an ownership interest for the employees in the organization.

Indirect compensation—Indirect compensation includes the benefits enjoyed by the employees but paid by the organization. Usually, indirect compensations are available to all employees irrespective of their performance in the job. Typically, the components of indirect compensation are health-care schemes like MediClaim, insurance schemes, leave travel concessions, retirement benefits and other social security schemes. An organization may also offer facilities like club membership, car and vacation at holiday resorts as a part of indirect compensation.

Incentives and Benefits

Wage incentive is any form of performance-based financial and/or non-financial rewards payable to attract and retain the best talents without any permanent financial commitment for the firm. The primary purpose of providing wage incentives is to enhance the organizational performance and employee productivity. They motivate employees to work harder in their jobs to get recognition in monetary and non-monetary terms.

Fringe Benefits

Fringe benefits are a kind of compensation available to employees over and above the usual fixed basic pay and variable wage incentives. The primary purpose of fringe benefits is to enhance the general well-being of the employees of an organization. These fringe benefits are mostly paid in kind in the form of perquisites. Such benefits include, among others, health and accident insurance, contribution to superannuation funds, leave facilities, education facilities, housing facilities, free or concessional ticket to travel, entertainment, provision of hospitality, accommodation in the nature of guest house, festival celebrations, scholarship and tours. Managers often use performance evaluation report for determining the employee compensation objectively. We shall now discuss about performance evaluation as a HR function.

Evaluation

Performance evaluation is an objective review and rating of an employee's performance in comparison with the relative performance standards. An organization, through performance evaluation, seeks to know what an employee does. It is concerned with the evaluation of individual and group performance of employees. Each organization can have its own way of appraising the performance of its employees. The mode of appraisal may be formal or informal.

Objectives of Performance Evaluation

Every organization practices some form of performance evaluation to achieve the pre-specified objectives. Through performance evaluation, organizations look to:

Identify the performance gap—Performance evaluation helps in determining the gap between the actual performance of the employee and the performance expected or desired by the organization.

Ascertain the basis for promotion, transfer and termination—Performance evaluation facilitates the process of identifying the employees who deserve promotions, transfers or even terminations in an objective manner.

Design training and development programmes— The results of performance evaluation can be used to identify the specific skills required to be developed for each employee and thus can help in developing the training and development programmes.

Establish wage and salary administration— Performance evaluation helps in determining compensation packages like wage fixation, rewards allocation and incentives for the employees on a scientific basis.

Increase employee effectiveness—Performance evaluation facilitates an organization in improving the effectiveness of its employees by helping them identify their strengths and eliminating their weaknesses.

Improve interpersonal relations—It helps in building a cordial industrial relationship by encouraging good contact between the management and the labour. It acts as a mechanism for communication between the superiors and the employees.

Performance Evaluation Methods

Managers have to carefully choose from the number of evaluation options available to them. We shall now discuss the performance evolution methods briefly.

The Rating Scales Method

In this method, evaluators record their assessments of the performance of the employees on a scale. The scale lists a group of traits and a range of performance expected for each trait. These traits are usually job-related factors like the quality and quantity of job and personal factors such as reliability, interpersonal skills and adaptability. The scale may have various scores representing outstanding, average, improvement required, etc. The supervisor evaluates an employee by circling in the evaluation form, a scale of each factor that best describes his or her performance. Finally, the assigned values are summed up for each trait.

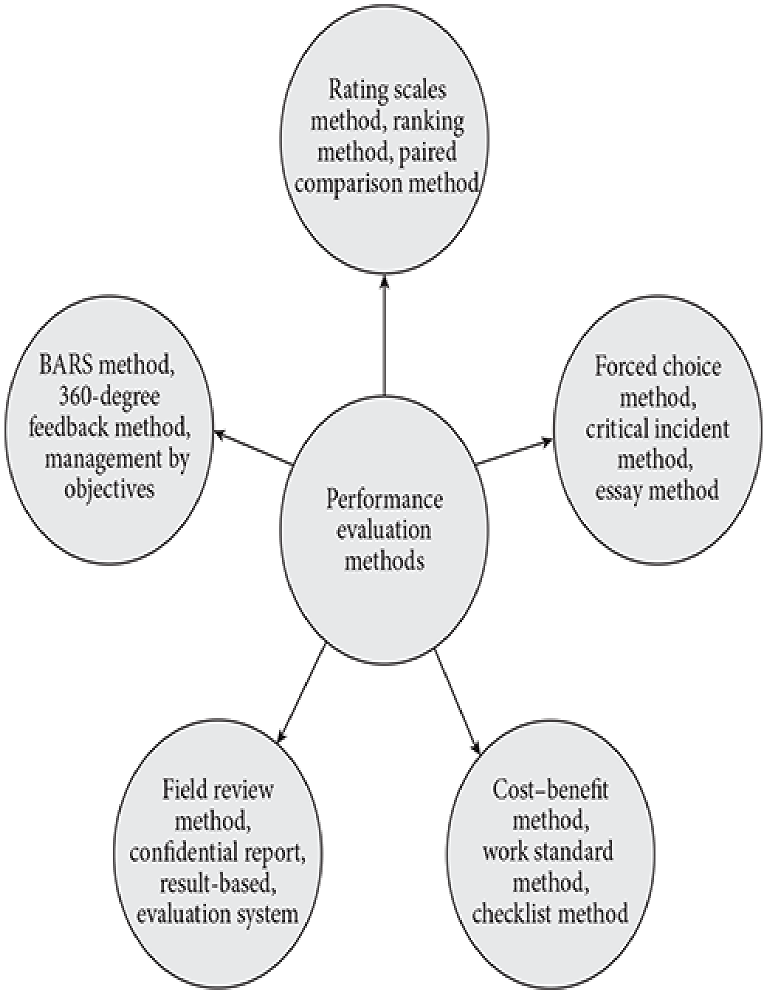

Figure 9.5
Methods of Performance Evaluation

The Ranking Method

In this method, each employee is ranked by the evaluator on the basis of their relative worth to the organization, as compared to other employees. Each evaluated employee secures a place in a ranking order ranging from topmost to the worst for selected characteristics. In brief, the best employee in the list is ranked the highest and the poorest one is at the bottom for selected characteristics.

The Paired Comparison Method

In this method, two employees of a group are considered as a unit or pair. On the basis of predetermined criteria such as total performance, one employee is compared with another. This process of comparing a pair of employees continues till all the employees have been compared. Finally, the employee with the greatest number of favourable responses in inter-person comparison gets the highest ranking.

The Forced Distribution Method

In this method, the evaluator is forced to assign the employees to various performance categories like excellent, good, average and poor, each with a predetermined percentage. For instance, the evaluator must have to distribute 10 per cent of the employees to the excellent performer category, another 10 per cent to the poor performer category, and the remaining to in-between performer categories.

The Forced Choice Method

In this method, the evaluator has to evaluate the employees with the help of a series of statements (or list of traits). The series may contain both favourable and unfavourable statements. Each statement would carry weights or scores, which may not be known to the evaluator. Now, the evaluator has to choose the most appropriate statement, which best represents the individual being evaluated.

The Critical Incident Method

In this method, the manager is required to keep a written record of positive and negative work-related actions of the employees. For instance, when a critical incident relating to the behaviour of the employee affects the department's functioning positively or negatively, the manager should record it. During the evaluation, these records can supplement other data effectively in evaluating the employee's performance.

The Essay Method

In this method, the evaluator writes a short description of an employee's performance. The evaluator has to provide a narrative of the employee's strengths, weaknesses and potentials. This method focuses less on the employees' regular day-to-day performance and more on their extreme behaviours at work.

The Checklist Method

In this method, a checklist containing a series of statements on the traits of the employees is prepared and presented to the evaluator, usually the immediate supervisor. The checklist has both positive and negative statements. Each statement is to be answered in the "Yes" or "No" format. It carries a score based on its importance to the overall evaluation. Once the evaluator completes the evaluation by ticking the appropriate columns that best represent the employee, the checklist is sent to the HR department for further processing like assigning predetermined scores and totalling such scores.

The Field Review Method

In this method, the evaluation of an employee is done by someone other than his/her own superiors. The purpose of this is method to avoid any possibility of the evaluator's bias and prejudice. Normally, evaluation is done by the HR people, who scrutinize the records of those employees being evaluated and conduct interviews with them and their superiors.

The Confidential Report (CR)

Confidential report is a kind of evaluation practised mostly in government and public-sector organizations. In this method, the evaluation records are kept strictly confidential and are accessible only to the pertinent officials. The evaluation report is prepared by the immediate superiors, usually on the basis of the continuous observation of employees over a period of time, say, in a year.

The Behaviourally Anchored Rating Scales (BARS) Method

The Behaviourally Anchored Rating Scales (BARS) method is a combination of the positive features of several other methods like critical incident, essay method and rating scales. In this method, the different performance levels of employees are shown by the side of the scale, with each level described in terms of specific behavioural example, either good or bad performance. This method specifies the various dimensions to be rated in behavioural terms and makes use of critical incidents to explain the various levels of performance. It helps the evaluators with a uniform frame of reference for evaluating the employees. The following steps have been suggested to develop BARS:[12]

- **Developing critical incidents**
- **Formulating performance dimensions**
- **Reassigning the incidents**
- **Rating the incidents**
- **Evolving a final instrument**

The evaluations based on this method seem to be relatively consistent and reliable, since the ratings of the same person done by different evaluators tend to be similar.[13] Further, among all the evaluation techniques, the BARS method is perhaps the most highly defensible in court because it is based on actual observable job behaviours.[14]

The 360-degree Feedback Method

The 360-degree feedback method is gaining popularity as a comprehensive technique to evaluate the performance of employees. The uniqueness of this method is that all those who interact with an employee in any capacity will prepare an evaluation report on him/her. This list may include senior managers, supervisors, employees, peers, team members, internal or external customers and even the employees themselves.[15] Ward defines the 360-degree feedback as "the systematic collection and feedback of performance data on an individual or group derived from a number of the stakeholders on their performance."[16] The main purpose of the 360-degree feedback method is to ensure a objective and comprehensive evaluation of a person's performance. Fig 9.6 Shows the evolution of 360 degree evolution.

Management by Objectives

Management by objectives (MBO) is a popular method that counts on joint goal-setting to formulate and achieve objectives for the organization, the department and the individual. The uniqueness of the MBO method is that it enables the employees to get involved in the evaluation process by setting their own goals. Basically, MBO involves setting specific measurable goals by the managers in consultation with the employees and, subsequently, examining the latter's progress toward those goals. In a broader sense, an MBO Programme involves the following phases.

- **Projecting the goals:** Employees are asked by their managers to propose their own preliminary goals for a given period of time, in harmony with the organizational and department goals.
- **Discussing the goals:** Managers and employees elaborate on the goals and, if necessary, modify them before reaching an agreement regarding the specific goals.
- **Developing yardsticks:** Managers, in consultation with the employees, develop yardsticks for measuring performances to determine how far the objectives have been met.
- **Executing performance reviews:** The employee's actual as well as agreed performance is reviewed periodically to assess the progress and problems in accomplishing the goals.
- **Providing feedback:** After assessing the employee's progress, managers discuss the ways and means for improving performance, if needed, with the employees.

Performance evaluation generally provides essential information to the management to determine the monetary benefits and the future job assignments of the employees.

Employee Life Cycle

The employee life cycle refers to the various stages of employment process. The primary goal of any employee life cycle management is to implement processes aimed at improving the quality, productivity, and job retention of employees. This life cycle actually describes the stages of an employee's time with a particular company and the role to be performed by human resource (HR) department at each stage. Employee's life cycle in an organization begins with recruitment and ends with termination, which also includes several stages in between including career development. In simple terms, employee life cycle involves hiring of employees, then managing them on a day-to-day basis, and finally preparing them to exit from organization. Employee life cycle management involves identification of the stages in employees' career and to help guide their career management in a mutually beneficial manner.

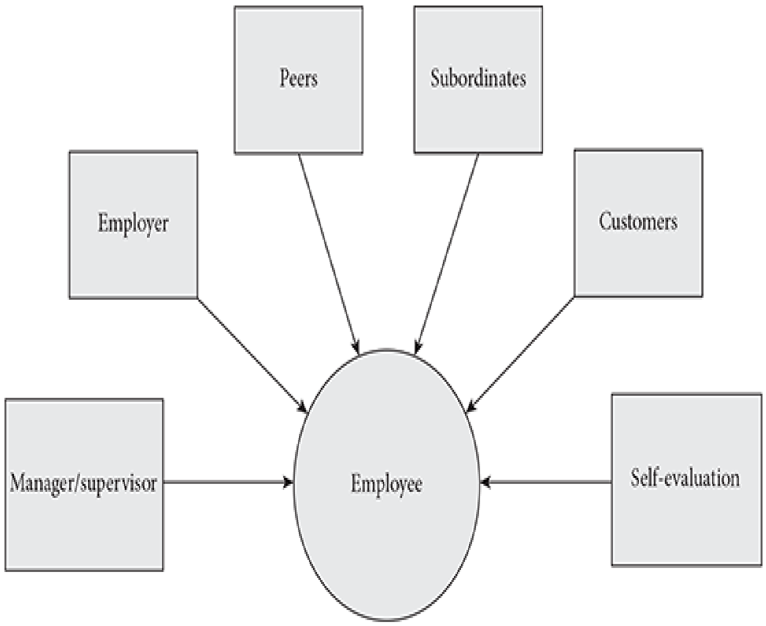

Figure 9.6
Evaluators of 360-degree Evaluation

The employee life cycle in a particular organization can last for decades, years, or even days. The various stages of the employee life cycle decide the HR techniques for each individual employee. Each employee is usually at a different place at a different time in this cycle. This employee life cycle involves the execution of specific HR activities such as recruitment planning and selection, induction preparation, performance management, motivating, engaging and developing employees, managing discipline and grievance, succession planning, and managing the transition. Many managers believe that effective employee life cycle management can help them in reducing the organization's cost per employee. As a result, managers are developing strategies for each stage of employee life cycle. We shall now see the common stages in employee life cycle (Figure 9.7) and the HR intervention required.

The following are the stages of employee life cycle management:

1. **Acquire:** The first and most important stage in employee life cycle is acquiring or hiring suitable people for the jobs. This stage requires careful analysis of the job and its function. Besides, organizations should use appropriate selection techniques for choosing the right persons. When a wrong person

is hired, then the life cycle will be short. Moreover, the cost of replacing a wrong hire usually exceeds the cost of hiring the best person in the first attempt.

2. **Inspire:** After hiring, the next stage in employee life cycle is inspiring the employees to perform better in their job. In this regard, organizations normally conduct various training and orientation programmes to make sure that the employees are aware of their responsibilities and comfortable in the new role. Through training, employees get a feel of the organization which in turn helps them shape their attitude towards the job and the organizational members. This stage also involves challenging and motivating employees to give their best efforts for their personal as well as organizational growth.
3. **Admire:** After inspiring the employees to work willingly and effectively towards goal accomplishment, the next stage in employee life cycle is admiring the employees for the good work done. When employees are not recognized in a just and timely manner, their motivation and satisfaction is bound to decline. When the employees perceive their job, superiors, or organization negatively, they are more likely to leave the organization early. efficient performance evaluation, fair and timely promotional opportunities, and effective monetary incentive are useful HR techniques for recognizing and admiring the good work of employees.
4. **Retire:** At this stage, the employees' relationship with the organization comes to an end. it may happen through retirement, resignation, or termination of employees. When an employee completes full or long tenure with the organization before leaving, it indicates the success of HR practices adopted at various stages of employee life cycle. When the organization succeeds in hiring, inspiring, and admiring the right talents, it can enhance both the employee life cycle and organizational life cycle substantially. When employees stay longer, it encourages other potential employees to join the organization. it also creates goodwill for the organization in the labour market.

Figure 9.7
Stages in Employee Life Cycle

Generally, the employee life cycle approach to people management calls for a unique set of HR initiatives and processes. This is because the employee life cycle generally differs from one organization to another depending on the size and nature of operations. However, a well-planned and flexible employee life cycle approach to HR management can add great value to any organizations.

Summary

1. HRM pertains to the policies, practices and organizational structure that facilitate the best use of human resources for accomplishing the organizational and individual goals.
2. Characteristics of human resource management/staffing are: (i) it is a managerial function, (ii) a continuous activity, (iii) an all-inclusive activity, (iv) a liaison task and (v) a process.
3. HRM process or functions include procurement, training and development, induction, compensation, valuation, maintenance and integration.
4. Human resource planning is the process of identifying and matching the HR requirements and HR availability in order to determine the future HR activities of the organization on the basis of the overall organizational objectives.
5. The steps in the HR planning process are setting organizational objectives and strategies, assessing the external environment, preparing in-house skills and competencies inventory, HR forecasting—need assessment, HR forecasting—estimation of availability, and developing HR plans and programmes.
6. Job analysis is the process of gathering relevant information on various aspects of a job including its content, context and the job performer's skill requirements. Job description is a written statement that describes all the aspects of a job. Job specification is a document that specifies the minimum acceptable qualities required for a person to complete the job satisfactorily.
7. Recruitment may be termed as a search for promising job applicants to fill vacancies that may arise in an organization. Organizations have two sources of recruitment. One is internal recruitment, which refers to filling open jobs with the current employees of the organization, and the other is external recruitment, which refers to reaching out to the external labour market to meet the labour requirements.
8. Selection is the systematic process of identifying suitable candidates for the jobs available in the organization from the available applicant pool. The various stages of the selection process are employment application forms/blanks, selection tests, selection interview, reference checks, physical examination and job offer.
9. Training may be termed as the process by which an employee acquires the necessary knowledge and skills to perform the job.
10. The methods of training are broadly classified into on-the-job training and off-the-job training. In this the On-the-job training methods include apprenticeship training, job rotation, internship and assistantship and job instruction training. Off the-job training methods include programmed learning, simulation method, laboratory training, case study method, lecture method and role playing.
11. Induction process comprises three stages, namely employee orientation, socialization and placement. Employee orientation is the systematic process of offering essential information to new employees to make them feel comfortable in the organization and also in the job. Socialization is the process of exposing the new employees to the organizational culture systematically and integrating them into it eventually.
12. Compensation is the sum of rewards for the job related efforts of the employees and for their commitment and involvement in the job. It can be classified as direct and indirect compensation. The elements of direct compensation are basic and variable pay, which includes profit-sharing, gain-sharing and equity plans.
13. Wage incentives are any form of performance based financial and/or non-financial rewards of any permanent financial

commitment for the organization. Fringe benefits are benefits payable to the employees over and above the direct compensation and usually without any reference to their performance.

14. Performance evaluation is an objective review and rating of an employee's performance in comparison with the relative performance standards.
15. The objectives of performance evaluation are identifying the performance gap; providing a basis for promotion, transfer and termination; aiding in designing training and development programmes; assisting in wage and salary administration; helping in increasing employee effectiveness; improving interpersonal relations; and identifying employees' grievances.
16. The performance evaluation methods are: rating scales, ranking method, paired comparison, forced distribution, forced choice, critical incident, essay method, cost–benefit, work standard, checklist, field review, confidential report (CR) and result-based evaluation system.
17. BARS is a combination of positive features of several other methods like critical incident, essay method and rating scales. In 360-degree feedback method, all those who interact with an employee in any capacity will provide an evaluation report on him. Management by objectives (MBO) counts on joint goal-setting to formulate and achieve the objectives of the organization.

Review Questions

Short-answer questions

1. Define the term human resource management.
2. State the characteristics and importance of HRM.
3. What are the objectives of HRM?
4. Define the term human resource planning.
5. What do you mean by the term job analysis?
6. Define the term employee orientation.
7. How will you define the term socialization?
8. What is meant by placement?
9. What do you understand by the term training?
10. What do you mean by management development?
11. State the meaning of the term compensation.
12. State the meaning of the term performance evaluation.
13. What are the objectives of performance evaluation?
14. Write a note on management by objective.

Essay-type questions

1. Discuss in detail the steps involved in the human resource planning process.
2. Enumerate the different internal sources of recruitment with examples.
3. Describe in detail the various external sources of recruitment.
4. Critically explain the steps in the selection process.
5. Describe the purposes of employee orientation with relevant examples.
6. Discuss in detail the on-the-job training methods with relevant examples.

7. Enumerate the off-the-job training methods with suitable illustrations.
8. Discuss the strategic role of management development programmes in the growth of an organization in detail.
9. Training is not an expense but a long-term investment on people. Discuss.
10. Describe any five management development programmes adopted by Indian industrial organizations.
11. Discuss in detail the different types of compensations using relevant examples.
12. Enumerate the methods of performance evaluation with relevant examples.
13. Critically examine the role and relevance of the Behaviourally Anchored Rating Scales as a performance evaluation technique.

Case Study

When PMS Lacks Employees Confidence

Kaveri Boilers Private Limited is a medium-sized company engaged in the production of industrial boilders for the past 40 years. It has 5,800 employees. It is basically a non-unionized company with traditional HR policies and practices. The performance management (PM) policy of this company primarily focused on rewarding efficiency and chastising incompetence. This company attached immense weightage to its annual performance evaluation practice and treated it as a major event in the organization. Even though the outcome of the performance evaluation process often formed the basis for compensation fixation, promotion, transfer, and disciplinary actions, many employees viewed it as a mere fault-finding exercise without any performance improvement initiative. The PM system of Kaveri worked as follows.

When an employee's performance declines beyond the permissible levels, a warning is issued to him and he is usually asked to explain the reason for the decline. In the absence of any convincing reply or significant improvement in his performance within a reasonable time-frame, the company resorts to lateral transfers and the poor performer is normally shifted out of his present department and moved to another. However, the same appraisal system is continued there too and the employee is monitored closely. If the employee still continues to fare poorly, his services are terminated after due notice. This practice goes will with the over-all objective of the company's performance management system, which focuses on quality sustenance at all levels without making any compromise even while preserving the morale of the performing employees by quickly recognising their talents and rewarding them rightly.

Questions

1. Can we blame the existing performance management system for all the problem of the company?
2. Are there any HR issues other than performance appraisal involved? If yes, what are they?
3. If you were to be the HR manager, what will you do to resolve the crisis?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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CHAPTER 10

Human Resource Management–Policies and Practices

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning and objectives of employee promotion
2. Delineate the criteria for promotion policies
3. Explain the meaning and types of separation
4. Enumerate the meaning, objectives and types of discipline
5. Understand the meaning and sources of Grievances
6. List the techniques of grievance identification
7. Describe the meaning and objectives of industrial relations
8. Understand the meaning and features of employee welfare practice
9. Define the characteristics of strategic HRM
10. List the prerequisites for the success of workforce diversity Management
11. Trace the emerging trends in Human Resource Management
12. Provide an overview of Green HR initiatives

India's Inspirational Managers

Anand Mahindra is the chairman and managing director of Mahindra & Mahindra Ltd. (M&M)—a USD 14 billion (2018) multinational group with more than 39276 employees (2016) in over 100 countries across the globe. Anand Mahindra won the Global HR Excellence Award instituted by the World HRD Congress in the category of best CEO of the year 2007–2008 for his outstanding HR practices. He believes in the culture of collaboration and meritocracy and always insists on fairness, trust and transparency in employer and employee relations. The strong belief of Mahindra companies is that recognition plays an important role in motivating employees to demonstrate superior performance. Mahindra companies also believe that job rotation is a crucial process that helps individuals to improve their technical, behavioural and managerial Keeping the HR practices of Mahindra group in the background, we shall now see the important HR policies and practices.

Introduction

The last phase of HRM process is called maintenance function. Through this function, managers look to maintain employees' commitment and loyalty with the organization. The HR maintenance activities normally focus on the employee satisfaction and organizational performance. Success in employee maintenance initiatives calls for effective and creative HR practices and policies. These HR policies and practices must focus on the development of positive work environment, unbiased employee promotion policies, continuous employee feedback, impartial disciplinary actions and effective mechanism for grievance handling. In this regard, managers must ensure that the employees are satisfied with the policies relating to both HR maintenance and industrial relations. Certainly, maintaining healthy industrial relations in an organization is a pre-requisite for successful HR maintenance. In this context, we shall now discuss about the role and relevance of different techniques of employee mobility like promotion, demotion and, transfer.

Employee Promotion

Promotion is the advancement of an employee from one position to another, resulting in his financial benefit. Promotion may be defined as an employee's upward mobility in the organizational structure accompanied by increased authority, responsibility, compensation and social status. Promotion is certainly a good and effective motivator for employees. Organizations employ promotion as a tool to recognize and reward the merit and sincerity of the employees. Internal promotions for filling the job vacancies in an organization can increase the loyalty and morale of the employees. Promotions fulfil both the economic and social needs of the employees. In fact, the promise of a promotion acts as an incentive to many employees.[1]

Objectives of Promotion

Promotion plays an important role in providing socio–economic and psychological satisfaction to the employees. Employees often view promotion as recognition of their hard work and loyalty. Certainly, the absence of adequate promotional opportunities for employees can affect work quality, employee discipline and cooperation, and can cause acute skill shortages.[2] We shall now look at the objectives of promotion.

- Promotion helps the management to fill the job vacancies available within the organization by upgrading the employees.
- Organizations seek to encourage efficiency and loyalty among the employees through promotion.
- Promotion aims at attracting and retaining the competent employees in the organization.
- Organizations use promotions to develop constructive competition among group members to improve their performance and productivity.
- Through promotion, organizations aim at providing the employees a sense of growth within the organization.
- Organizations look to accomplish the long-term organizational goals effectively with the promise of promotion to the employees.
- Organizations develop the culture of continuous learning among the employees by linking promotion to employee competence and knowledge.
- Through promotion, organizations seek to fulfil the career growth aspirations of the employees and shape up the succession plans of the organization.

Promotion Policy and Criteria

Promotion is one of the highly sensitive tasks performed by the managers. This is because the employees who fail to get promotion may blame the system if it is not transparent. Therefore, an organization needs to be careful about its promotion policy and criteria. As shown in Figure 10.1, organizations generally use either merit or seniority, or both as criteria for employee promotion. We shall now briefly discuss these general promotion criteria.

- **Merit as a criterion**—When merit is the basis for promotion, the job positions in an organization are filled with the most talented persons available within the organization. In this category of promotion, merit is given appropriate consideration, while other factors, such as seniority, become insignificant in the promotion decision. In this category, the selection of candidates for promotion will be based only on job-related criteria.
- **Seniority as a criterion**—In case of seniority-based promotion, the length of service of the employees is considered for promotion. The other factors such as competence and commitment are normally overlooked. Herein the job positions available within the organization are filled with persons who have the maximum number of years of service in the organization. The length of service becomes the sole criterion in promotion decisions. The seniority-based system is normally followed in public sector organizations. In organizations where the seniority is the sole basis, promotions are usually time-bound and also a formality.

- **Seniority as well as merit as a criterion**—In this method, an organization considers both merit and seniority for determining the promotion of an employee. The primary purpose of this method is to include the positive features of both the promotion criteria. An organization may decide the weights for merit and seniority on the basis of its HR and promotion policies. For instance, it may decide to have the proportion of merit and seniority in the ratio of 70 and 30 in order to evaluate the potential candidates. The promotion policy of a public-sector organization is given in Box 10.1.

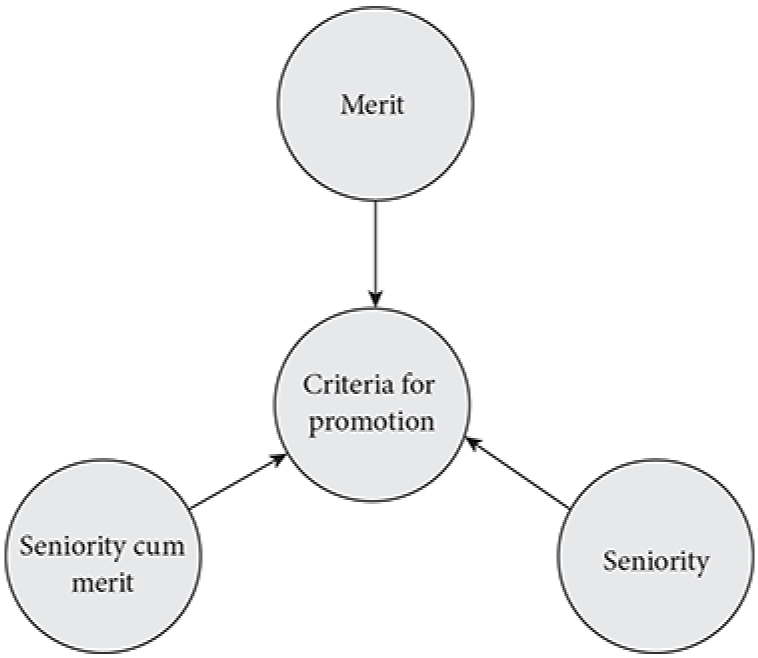

Figure 10.1
Criteria for Employee Promotion

Box 10.1
Promotion Policy of New India Assurance Company

In case of public-sector organizations, managements usually keep both merit and seniority as a criteria for determining the employee career growth (say, promotion). However, the degree of importance given to these criteria differs significantly for different cadres or scales. For instance, the influence of seniority as a criteria for promotion diminishes as the employee reaches certain levels in organizational hierarchy as in the case of the New India Assurance Company.

According to this company's promotion policy, promotions of officers from one scale to another, is to be fulfilled in such a manner that merit is given due recognition while seniority is duly respected to the extent consistent with the efficiency of the organization. Specifically, promotions up to Scale V are based on the overall ranking obtained under the various parameters for measuring merit and seniority among those qualifying the pre-specified benchmark, whereas promotions to Scale VI and Scale VII are based on the sole criterion of merit. The parameter[20] for promotion up to Scale V is given here:

Parameter	Scale I to Scale II	Scale II to Scale III	Scale III to Scale IV	Scale IV to Scale V
(a) Written test	30	30	30	25
(b) Insurance qualification	5	5	–	–
(c) Work record	30	35	45	45
(d) Seniority	35	30	25	15
(e) Interview	–	–	–	15
Total	100	100	100	100

Demotion

Demotion is just the reverse of the term, promotion. It means the transfer of employees to lower positions in the organizational structure. Demotion may be defined as an employee's downward mobility in the organizational structure. Demotion is normally accompanied by reduced authority, responsibility, compensation and social status. It is often used as a punishment for employees for serious violation of rules and regulations and for consistent performance deficiency. However, a demotion can also be effected by the organization on the request of the employee concerned. The essence of demotion is a decrease in the job status of the employee.

Transfer

Horizontal shifting of an employee from one job to another without any job-related increase in the pay, benefits and status of the employee is called a transfer. Transfer can broadly be classified into two categories, namely, imposed transfers and requested transfers. In case of the imposed transfer, an employee is transferred for administrative convenience with or without his concurrence. For instance, an organization may carry out transfers for better utilization of skills and knowledge of the employees. It may also transfer employees as a part of on-the-job training process. Transfers may also be used to see whether an employee is fit for permanent placement in that position as a part of promotion. In case of requested transfers, an employee is transferred to another job or place because he/she has requested for the transfer. Transfers are often requested by employees for personal reasons.

Transfer may be defined as an employee's lateral mobility in the organizational structure without any significant change in the authority, responsibility, compensation and social status. An organisation may transfer an employee to fill a vacancy caused by death, retirement or resignation of an employee in another job. We shall now discuss about employee separation practices like resignation, retirement, etc.

Employee Separation Practices

Employee separation is a sensitive issue for any organization. Usually, an employee leaves the organization after several years of service. Thus, the permanent separation of employees from the organization requires careful handling and a great deal of planning. An employee may be separated as a consequence of resignation, removal, death, permanent incapacity, discharge or retirement. The employee may also be separated due to the expiry of employment contract or as a part of downsizing of workforce.

Employees can provide wealth of information to the organization at the time of separation. Exit interviews can be conducted by the managers or HR department to ascertain the views of the leaving employees on different aspects of the firm including the efficacy of the organizational policies. We shall now see the different types of separations.

Types of Separation

Depending upon the reason, an organization may initiate voluntary or involuntary separation of employees. As illustrated in Figure 10.2, important forms of separation are retirement, resignation, removal, retrenchment and lay-off. We shall discuss these various forms of separation.

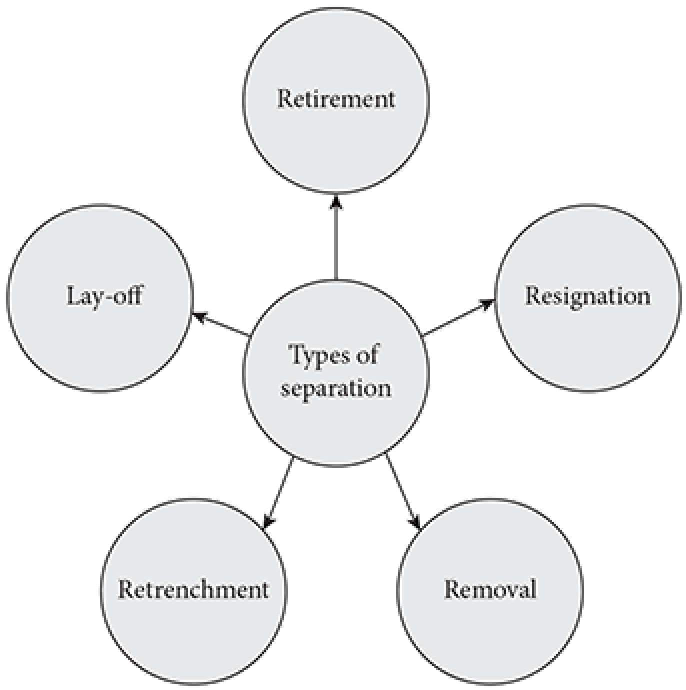

Figure 10.2
Types of Employee Separation

Retirement—This is a common form of separation of employees from the organization. Depending upon the retirement policy, an organization would initiate the necessary steps to separate the employees upon attaining the specific age. In addition to regular retirements, an organization may also adopt Voluntary Retirement Scheme (VRS) and Compulsory Retirement Scheme (CRS) to separate employees from the organization. In case of VRS, organizations usually offer large sums of money over and above the actual retirement benefits to encourage the employees to willingly leave the organization before their retirement age. Organizations can also go for a CRS after completing due formalities such as issuing necessary notice to the employees.

Resignation—When an employee seeks to resign from the job for personal or professional reasons, the organization may initiate the separation process. The specific employment contract, the resignation rules of the organization or the relevant provisions of the statutory acts guide the resignation process.

Removal (including dismissal or discharge)—An organization may dismiss or discharge employees from the services for reasons like behavioural problems, including unethical behaviour and violations of the code of conduct. In case of dismissal, an employee is not entitled to get terminal benefits such as provident fund, gratuity and so on, whereas a discharged employee is eligible for all the terminal benefits. In any case, both dismissal and discharge are always viewed as extreme punishments and challenged in various legal forums.

Retrenchment—Retrenchment is a kind of involuntary separation which an organization adopts to downsize its labour force. The purpose of retrenchment is to reduce the expenditure of the business especially during the difficult times of the organization. The need for retrenchment may arise due to the closure of unprofitable business operations, the automation of operations, and shifting business from one region to another.

Layoff—A layoff is similar to retrenchment except that it is a temporary separation of employees from the organization. Organizations usually prefer layoffs to overcome the problems of business slowdown and other temporary business interruptions. Since a layoff is a temporary separation, the employees would be called back once the business prospects improve.

Employee separation is normally a painful process for both the employer and employees, especially if it is an involuntary separation. Often, discipline related issues become the reason for involuntary separation of employees. Let us now discuss about discipline and disciplinary policies of organisations.

Discipline and Disciplinary Policy

Discipline refers to employees' observance of standards of behaviour set by the organization. The disciplinary action refers to punishing the employees who fail to meet those standards of behaviour. Managing employees' behaviour and performance is one of the important tasks of the managers. In this regard, many organizations maintain a disciplinary policy or system to regulate the behaviour of the employees and to deal with acts of indiscipline. Some organizations conduct discipline management training for its managers to help them understand the tactics of effectively managing discipline among the employees. The purpose of such training is to ensure that when the superiors discipline their subordinates they do so in a just and fair manner. This is important to avoid the charges of bias and prejudice and also the legal problems at a later stage. Managers must also be made to understand that the purpose of disciplinary action is not just punishing the erring employees but also ensuring that the same act of indiscipline is not repeated by any employees in the organisation.

The disciplinary proceedings and actions produce emotional situation for both the superiors who conduct the proceedings and the employee who faces the disciplinary actions. It is therefore essential for an organization to have comprehensive policies and guidelines. These polices must clearly tell the superiors how they should conduct the proceedings and how it should be concluded.

Objectives of Discipline

The major objectives of discipline are:

Accomplishing the goal—Achieving the corporate objectives is an important aim of employee discipline. All efforts directed towards the maintenance of discipline must end with the accomplishment of organizational goals; otherwise, the imposition of discipline will be of no use.

Developing a responsive workforce—Organizations use discipline to make employees conform to the standards of behaviour. Discipline ensures that employees avoid reckless and insubordinate behaviour.

Changing employee behaviour—Organizations aim at bringing in the desired behaviour among the employees through discipline. The presence of a disciplinary policy can help employees check their behaviour against the standards and change their behaviour if necessary. For instance, discipline may caution the low performers and can compel them to modify their behaviour to meet the performance standards.

Improving morale and motivation—Organizations attempt to improve employee motivation and morale through a fair disciplinary system. When the employees see an act of indiscipline getting a fair and quick punishment, they feel proud of their disciplined behaviour. This feeling provides a sense of satisfaction, motivation and commitment to the employees.

Exercising better control over employees— Discipline helps managers to exercise effective control over subordinates. Since the authority to take disciplinary action is given to the managers and supervisors, it arouses fear in the minds of the employees and forces them to follow the instructions of their superiors.

Ensuring consistency in action—Discipline aims at ensuring consistency in the disciplinary actions of different managers while dealing with acts of indiscipline of similar nature. They also aim at ensuring consistency in the disciplinary actions of the managers in different periods of time.

Promoting industrial relations—One of the objectives of discipline is to promote good industrial relations in the organization. Discipline issues often cause a lot of strain in the union–management relations. However, through objective and transparent disciplinary process, organizations can convince the unions about the fairness of the process and get their continued cooperation in the future.

Substituting personal supervision—Another objective of discipline is to reduce the need for close supervision in the organizations. Discipline system and policies develop self-discipline among the employees. Thus, through discipline, organizations can aim at reducing the cost of supervision without compromising on its quality.

Types of Discipline

The general purpose of discipline is to bring about positive changes in an employee's performance, attendance or behaviour. There are many disciplinary systems available for an organization to fulfil the objectives of discipline goals. The important ones are positive discipline, negative discipline and progressive discipline. We shall now briefly discuss these different types of disciplines.

Positive Discipline

Positive discipline, aims at seeking the willing cooperation of employees in observing the disciplinary code of the organization. The two important aspects of positive discipline are: (i) personal responsibility of employees for maintaining discipline and (ii) independent decision making by them to eliminate their undesirable behaviour. In this method, the responsibility of the organization is to create a positive environment that encourages the employees to follow the organizational code of conduct. In the event of indiscipline, "remind rather than reprimand" is the approach in positive discipline.[3]

Negative Discipline

It is a traditional form of discipline followed by a conservative management. In this method, fear is the key to the maintenance of discipline. For instance, the fear of punishment will be the driving force for the employees to avoid misconduct. It also forces them to obey the rules and regulations of the organization. This form of discipline never seeks the willing cooperation of the employees in ensuring discipline within the organization. The prime aim of the employees in this method is escaping punishment and not cooperating with the management. The intention here is to escape punishment and not extending cooperation. The consequences of negative discipline are: distrust in management–labour relations, low employee morale and motivation, high labour turnover, and lack of self-belief.

Progressive Discipline

Progressive discipline is any employee disciplinary system that provides a graduated range of responses to employee performance or behaviour problems.[4] Progressive discipline requires an organization to adopt a step-by-step approach to deal with the problems of indiscipline of an employee. While dealing with the disciplinary problems involving employees, this method suggests that the organization begins the disciplinary action process moderately and then increases the degree of severity gradually and ends up with the most severe punishment. For instance, the disciplinary process may begin with an oral reprimand to a person with performance indiscipline and may end up in his dismissal, if all the efforts to correct his behaviour fail. The extent of punishment depends on the frequency and severity of the performance and behaviour problem and the length of service of the employee.

Employee Grievances and Grievance Handling Practices

Every organization tries hard to create a work environment in which employees feel satisfied and relaxed. But organizations often face situations where employees feel dissatisfied by the actions and policies of the managers. Usually, this feeling of dissatisfaction in an employee is treated as a complaint, if it is orally expressed, and a grievance, if it is in a written form.

A grievance is a written complaint by an employee, which is about unfair treatment. This grievance may be real or imaginary, serious or trivial but it should arise out of a person’s employment in the organization. Generally, grievances arise due to the presence or absence of certain factors. For example, salary and perquisites, working conditions, working hours, policies relating to promotion and transfers, code of conduct, personality factors like the superior's attitude,[5] technological development and innovations, can cause grievances among employees.

Sources of Grievances

Grievances generally arise from the following sources:

1. Contract terms, which are too general, contradictory or ambiguous.
2. Working conditions and pay arrangements, which are in some manner unsatisfactory to employees.
3. Managers who fail to properly abide by the contract.
4. Employees who fail to adhere to the terms of the contract.[6]

In simple terms, grievance may arise out of management policies and practices, working conditions, style of supervision, collective bargaining agreements and work-adjustment difficulties.

Techniques of Grievances Identification

Every manager must have the ability to identify, analyse and correct the causes of potential employee dissatisfaction before they become grievances. In this, the organization must perfect a system to identify the trouble in advance and solve it before it gets out of control. In this regard, an organization may adopt any one of the methods shown in Figure 10.3, to identify employee dissatisfaction.

Exit interview—When employees quit an organization for any reason, an exit interview may be conducted to obtain information about job-related matters. It will be natural for those quitting their jobs to speak freely and frankly about their experience in the job. This can provide the employer with an insight into the problems and anxieties bothering the employees. In any exit interview, the organization will attempt to find out from the quitting employee the reason for leaving the organization, the HR policies that require improvement, and the positive and negative aspects of his job.

Gripe-box system—Under this system, employees can drop their written complaints in the boxes kept by the organization. The purpose of this system is to enable the employees to secretly express their complaints without the fear of being victimized. Gripe boxes are usually kept at prominent places in the office for receiving anonymous complaints pertaining to any aspect of work. This method is more effective than suggestion boxes, if the complaints are serious and sensitive in nature.

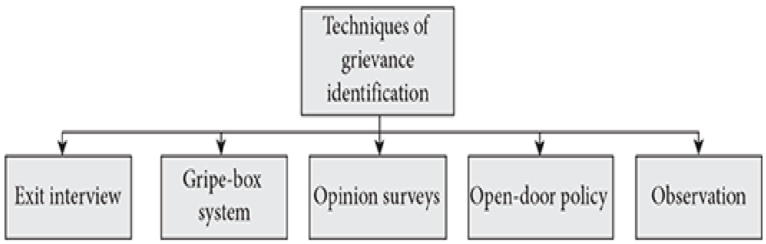

Figure 10.3
Techniques of Grievance Identification

Opinion surveys—While a gripe box is an impersonal way of collecting complaints, an opinion survey is the direct and personal way of gathering information from the employees about their grievances. Group meetings, periodical interviews, and collective bargaining sessions are the various forums available for the employers to get to know the employee's grievances.

Open-door policy—This is a progressive style of gathering complaints from the employees. In this system, the workers are encouraged to call on the relevant manager at any time, to freely share their feelings and complaints with him. This method will be effective only when there is mutual trust in the relationship between the managers, and the employees.

Observation—In this grievance identification technique, grievances are not heard from the aggrieved employee directly. Instead, the manager constantly tracks the behaviour of the employees working under him/her. When an employee exhibits an indifferent attitude, experiences difficulties in inter-personal relationship, mishandles or damages equipment or materials due to carelessness, or frequently abstain work, then the manager infers that the employee has some serious grievances. Once the manager notices such an unusual behaviour, he/she should report this to the higher authorities promptly.

Once the grievances are brought to the notice of the management it must make every possible effort to prevent these grievances from developing into full-fledged disputes. It must begin the process of redressing the grievances at the earliest. In the absence of effective grievance redressal mechanism, even a small issue could go out of control quickly to affect the employer-employee relations.

Industrial Relations Practices

The social relationship between the management and employee is usually referred to as industrial relations. Industrial relation is a process through which an organization controls the employer–employee relations in the organization. This process may involve continuous communication and consultation between employer and employee. The employer–employee relationship is a highly sensitive and complex aspect influenced by a variety of factors. These factors may include among others organizational culture, condition of employment, nature of grievance handling system and dispute settlement procedure.

The chief actors in industrial relations are employers, managers and employees and their unions. Compensation-related issues, workload problems, retrenchment, lay-off and similar issues can determine the degree of cordiality in the employer-employee relationship.

Box 10.2
HR Practices at Raymond—Cooperation Is the Core

Organizations usually choose a combination of HR practices that suit their requirements well. However, the ultimate objective of any HR practice is the creation of a highly satisfied and motivated workforce necessary for achieving the required level of organizational efficiency. In this regard, HR practices at Raymond present an interesting illustration.

The HR practices at Raymond focus on the development of craftsmanship, teamwork and professionalism among its workforce. Through its HR practices, Raymond aims at fostering a growth-oriented environment that facilitates all its employees to fully realize their potential. In case of recruitment, the company offers the opportunity to its own employees first while filling the vacant positions, only then it considers "market-skilled" employees from other companies. It considers campus recruitment as an important source of recruitment for hiring fresh talent. As regards training and development, Raymond periodically organizes Raymond Management Development Programme (RMDP) for providing basic and advanced management perspectives and an opportunity for self-learning to its employees. In the case of performance evaluation, it has adopted a 360-degree feedback system for assessing the performance of the employees and also to prepare employee's individual development plans. As a part of its employee retention strategies, it offers educational, housing, recreational and spiritual support systems for its people. Finally, it conducts a mentoring programme for new employees to enable them to adapt themselves to the organizational environment.[21]

Objectives of Industrial Relations

Developing mutual respect and tolerance is the primary objective of both the employers and the unions in the industrial relations exercise. However, this calls for systematic efforts on the part of the organization. We shall now discuss the other objectives of industrial relations.

Building cordial relationships with the employees—Organizations aim at achieving warmth and friendliness in their relationship with the employees through industrial relations.

Maintaining connectedness—Organizations look to remain connected with the employees through the industrial relations exercise. In fact, industrial relations try to expand on the first connectedness created between the employer–employees.[7]

Safeguarding mutual interests—Through industrial relations, organizations attempt to protect the interests and the well-being of the employers and the employees. This is done by ensuring a free and frank exchange of feelings, opinions and grievances between employer and employees on a regular basis.

Preventing industrial conflicts—"Conflict is the motive force of the industrial relations system."[8] This is because an important purpose of industrial relations is to avoid industrial conflicts, which normally result in the loss of man-days.

Promoting industrial democracy—Through the industrial relations system, organizations attempt to promote industrial democracy by involving the employees and their unions in policy formulation.

Avoiding exploitation—Employees, as individuals, cannot bargain effectively for their economic and social rights. In contrast, industrial relations facilitate employees in using their collective strength in getting fair compensation and other benefits.

Providing a dynamic role for the government—Industrial relations enable the government to take an active part in the deliberations involving the employers and the unions as a third party in the event of industrial dispute.

The level of harmony in the industrial relations of organization is often decided by the employee welfare measures undertaken by the management. We shall now discuss about the employee welfare practices of the organizations.

Employee Welfare Practices

Employee welfare refers to the facilities provided to the employees in excess of the statutory requirements. The basic objective of welfare measures is to ensure the physical and mental well-being of the employee. Further, employee welfare measures aim at earning and retaining the goodwill and loyalty of the employees and their unions. Organizations often use it as an effective means to control the employee attrition and the related HR cost.

Features of employee welfare—The salient features of employee welfare measures are as follows:

- Employee welfare is provided voluntarily by the organization to show its interest in the general well-being of the employees.
- It is usually provided over and above the statutory and contractual obligations of the organization relating to compensation.
- Organizational objectives and strategies provide the broad outline for determining the employee welfare policies of the firm.
- Since employee welfare measures are not linked to the performance of the employees, they have direct impact on the profits of the firm.
- Employee welfare measure look to enhance the mental, physical, intellectual and moral well-being of the employees.
- Employee welfare measures extend beyond the job and organization to take care of the personal life of the employees.
- It is an ongoing process and not a one-time activity of the organization.
- Employee welfare measures are normally paid during the good times of the organization.
- Employees, employers, trade unions and the government are the stakeholders of employee welfare measures.

Welfare measures undertaken to improve the well-being of the employees can broadly be classified into two categories. They are statutory welfare facilities and non-statutory welfare facilities. When welfare facilities are undertaken as per the requirements of the laws, then these facilities are called statutory facilities. These are facilities offered by organizations in compliance with the central and state government regulations. Alternatively, when welfare facilities are undertaken voluntarily by the employers, they are called non-statutory welfare facilities. Non-statutory facilities normally include transport facilities, housing facilities, education facilities, recreation facilities, canteen facilities, insurance facilities, e-commuting and flexi-time facilities. Box 10.3 shows the employee benefit programmes of a software company.

The welfare facilities offered to employees usually differs from one organization to another depending upon the philosophy, policies, and objectives of the organization. The welfare facilities normally entail significant expenditure for the organisations. Due to its impact on revenue and profit, the welfare decisions relating to HR are now considered as strategic decisions. Many Austrian companies like to view HR functions as part of strategic HRM and also as a core activity of HRM department.[9] HR strategies formulated at the top levels of the management and implemented across the entire organization constitute strategic HRM. We shall now discuss it in detail.

Box 10.3
Employee Benefits—iGATE Shows the Way

iGATE is a leading software company with over 27,000 employees. It has a remuneration package that aims to attract, motivate and retain its employees. The salary structure of this company has a variable-based component that rewards the employees for their performance and contribution to the growth of the organization. As a result, high performers can have their salary packages exceed the industry average. iGATE provides medical expenses reimbursements for the employees and their dependents. iGATE offers company-leased accommodation for middle-level and senior-level managers. It also offers restricted stock unit plans that aims at encouraging wealth sharing and ownership among the employees, based on their performance.

As regards employee development, the “iGATE Learning, Education and Research Node” (iLEARN) offers technical training to new recruits in their relevant technical streams. It also has the Learning & Development (L&D) function that provides necessary behavioural and soft-skills training to employees at iGATE. To enable iGATE employees participate in a better way in organizational initiatives and provide meaningful insights, it has tied up with the Birla Institute of Technology and Science, Pilani, for conducting a two-year off-campus Master of Science collaborative degree programme in software engineering. It also has a knowledge management (KM) portal that serves as a gateway for its global workforce to share knowledge. The major aim of KM at iGATE is to instil the culture of "shared learning" among employees.[22]

Strategic Human Resource Management (SHRM)

SHRM is the process of aligning HR strategies with the business strategy for effective accomplishment of organizational goals. SHRM looks to develop highly committed, competent and motivated employees for achieving high level of individual and organizational effectiveness. It aims at adopting a proactive HR management in which HR strategies play a crucial role in shaping the overall corporate strategies and goals.

In SHRM, management attempts to develop an organizational culture that promotes creativity, flexibility and business performance on a sustained basis. SHRM focuses more on the development of strategic HR decisions that have long-term implications for the future of the organization.

Characteristics of SHRM

The important characteristics of SHRM are as follows:

- SHRM is performed at the higher levels of management due to its vital role in organizational goal-setting and resource allocation process.[10]
- In SHRM, line managers play a more prominent role in strategy formulations than the HR managers.[11]
- It focuses more on estimating and fulfilling the long-term HR requirements of the organization.
- In SHRM, HR strategies and business strategies remain interconnected and interdependent.
- It attempts to gain competitive advantage by achieving the best possible customer satisfaction through its well-diversified and, efficient loyal human resources.
- The presence of mixed group of employees with different background and characterstics makes HR Management a challenging job for managers. We shall now see the importance of workforce diversity.

Workforce Diversity Management

The term diversity stands for differences among the background of individuals. Workforce diversity refers to the varieties in the demographic profile of an organization’s workforce. Both individual and group differences contribute to diversity in workforce. Diversity may arise on account of differences in religion, gender, culture, nationality and educational levels of the workforce.

Workforce diversity typically affects the communication pattern, change management strategies and adaptability of the organization. However, an effective management of such diversity can help in promoting the organizational interest in terms of business innovation, newer perspectives and faster expansions. Diversity management can be defined as a strategic organizational approach to workforce development, organizational culture change and empowerment of workforce.[12]

Workforce diversity can bring several benefits to organizations. They are:[13] (i) better scope for recruitment and retention of talented workforce, (ii) better corporate image, (iii) strong cultural values among the members of the organization, (iv) improved workforce creativity and innovation, (v) better customer satisfaction, (vi) better chances to solve labour shortage, (vii) avoidance of employee absenteeism and turnover, (viii) improved knowledge on new markets and customers, and (ix) effective management of global operations. However, the managerial commitment to diversity initiatives is important for the success of workforce diversity programmes.

Prerequisites for the Success of Workforce Diversity Management

Workforce diversity is a comprehensive managerial process for developing an environment that suits all employees.[14] Managers may introduce diversity initiatives voluntarily on a proactive basis to obtain the benefits of workforce diversity. They may also introduce them compulsorily to fulfil the legal requirements. In any case, diversity requires managers to learn new ways of dealing with their work and workers. Diversity management can be approached at three levels, namely, individual, interpersonal and organizational levels. Effective diversity management requires managers to:

- Acknowledge the differences in the culture and characteristics of individuals and groups in the organization.
- Recognize workforce differences as unavoidable and desirable.
- Promote the policy of inclusiveness at all levels of the organization.
- Avoid all forms of discrimination in their dealings with the employees.
- Enhance the knowledge, skills and abilities of the employees for effective goal accomplishment.
- Understand the role and relevance of workforce diversity in developing new ideas, perspectives and approaches.
- Secure the support of the top management for diversity planning and implementations.
- Build work environments that acknowledge the contributions of diversified workforce.
- Make suitable and need-based changes in HR policies and practices so that the variety of differences in workforce is productively utilized.

To be effective, organizations need to modify their HR practices to reflect the new realities of a diversified workforce. Diversity programmes usually demand higher ethical quotients in decision making.

Ethical Issues in Human Resource Management

Ethics refers to ethical principles and practices that influence and guide the behaviour of individuals and groups. A written statement of ethical principles and practices is described as the code of ethics. The HR policies and practices of a management can indicate the extent of importance of ethical values in the decision-making process of that organization.

Usually, employees learn ethical behaviour from their superiors. They often view their managers as role models for determining their own behaviour in the organization. It is therefore important for managers to consider their decisions from the ethical perspective too. They should conduct themselves in a just, fair, moral and ethical manner. When employees perceive absence of fairness and ethics in the actions of their managers, they may develop negative attitude towards their work life and the management. For instance, absence of justice and fairness in performance evaluation, promotion and compensation fixation can affect employees' performance, and satisfaction.

It is hence important for managers to establish ethical standards for evaluating the behaviour of their employees and also their own actions. Employees must be constantly encouraged to follow the ethical principles and practices in all their actions. In this regard, an organization can adopt the following measures for instilling ethical values among its workforce:

- Training the workforce on ethical values by regularly organizing meetings, presenting case studies, and so on.
- Displaying the organization's code of ethics in all prominent places such as rest room, dining room and recreation room through posters and exhibits.
- Taking serious view of the incidents involving ethical violations and dealing sternly with the violators.
- Encouraging managers to strictly adhere to ethical behaviour so that their subordinates follow them voluntarily.

Emerging Trends in Human Resource Management

Increased competition among the business organizations has dramatically changed the way they do their business to remain competitive. The last few decades witnessed tremendous innovations in different elements of organizations such as human resource management systems, management techniques, organizational structure and communication to improve business efficiency.[15] The role of managers has also changed from being the protector of employees to being the strategists of organizations. Consequently, HRM now has become more complex, and specialized. We shall now see the important changes seen in the field of HRM.

People-centric quality measures—Unlike the traditional organizational policies, which focused mainly on the financial capital, modern day policies focus more on efficient utilization of intellectual capitals. Even quality management standards, such as ISO 9001 and ISO 9004 of 2000, focus mainly on HR issues in organizations. This has brought about new importance to HR issues like training, employee health and safety and workforce satisfaction. As a result, managements are forced to spend time and resources towards people-centric activities.

Declining employee loyalty—There is a general decline in the "sense of belonging" and loyalty among the employees of present generation. This can be better understood through the employee attrition details of different industries in India. The BPO industry in India is a classic example of the decreasing loyalty of employees, as this industry witnesses approximately 50%[16]

attrition every year.[16] Similarly, financial services, retailing, biotechnology, aviation and higher education sectors also face high employee attrition rates. This declining employee loyalty towards organizations compelled the management to develop long-term, innovative career plans and prospects for employees to retain them in organizations.

Enlightened workforce—Due to increased access to information and education the present day workforce is more knowledge diversified and gender-balanced. The proportion of educated persons, women, religious minorities, and socially backward to the total workforce has significantly increased in the recent decades. Many HR policies are revised and updated to serve the needs and aspirations of these well-informed and diversified workforce. At present, the trend in HRM is to have, gender-specific and clear HR policies that serve the present and future requirements of the organizational members.

Global mobility—Global mobility refers to the job related movement of employees across geographical boundaries. Employee mobility is almost unavoidable for organizations operating in a globalized environment. Managers are now recognizing the need to look globally to develop and retain talent. Further, there is an increasing trend among organizations to send their employees on overseas assignments to: (i) accomplish the company objectives and (ii) develop their global skills.[17] Employees accept the foreign assignments to get international experience.

Advent of Human Resource Information System (HRIS)—Many large organizations are now using HRIS for efficient coordination of different HR operations and also to save the time of HR staff. HRIS is defined as "interrelated components working together to collect, process, store and disseminate information to support decision making, coordination, control, analysis, and visualization of an organization's human resource management activities."[18] HRIS can now do even the routine HR activities. These tasks include HR planning, application processing, payroll and benefit maintenance, work scheduling, employee training management, grievance identification and handling, employee personal information management, etc.

Individual bargaining—It refers to negotiation between the organization and individual employees to decide on the latter's employment contract and wage benefits. In recent times, employees prefer to have individual bargaining with their management to determine their wages and other benefits. This is in contrast to the earlier practice of bargaining between management and trade unions, which collectively represented the employees' interests. Individual bargaining is better suited for industries which witness acute labour shortages. In India, employees in most private-sector organizations, especially those in IT and BPO industries usually work in an individual bargaining environment. However, individual bargaining involves more work for the managers as they have to deal with employees on a one-to-one basis in wage negotiations. Individual bargaining can be best for rewarding merit and efficiency but it can also become a basis for favouritism, nepotism, gender bias, etc.

Human Resource Outsourcing (HRO)—It refers to the transfer of a few or all HR functions of an organization to external HR providers. HRO typically means engaging third party service providers on a continuing basis to look after the administration of HR activities.[19] Organizations usually outsource HR functions when they do not have adequate time or resources to manage them on their own. Once delegated, the external HR experts become responsible for managing the outsourced HR activities. Generally, the HR functions like recruiting, training and development, health and safety management, payroll administration, employee welfare schemes and risk management are outsourced by organizations. HR outsourcing normally relieves the line managers from routine HRM tasks and also enables them to focus more on their core activities.

E-commuting

E-commuting (also called telecommuting) is a kind of work system in which the distance barrier is overcome by means of telecommunication. It facilitates employees to perform their jobs without being present in office. It is a facility available to select number of employees to work from home for a relatively longer period of time. For instance, e-commuting can be extended to employees who are pregnant, sick and are on long tour.

Flexi-time Work

Flexi-time work is another alternative work practice followed by organizations to achieve better cooperation from employees. Flexi-time scheme is actually a work design in which employees are allowed to work during pre-determined work hours.

In this method, employees have the freedom to choose their flexible starting and ending time of work within the scheduled working hours of the organization. The individual working hours are determined as per the convenience of each employee. An employee may follow his own working hours or his team’s working hours depending upon his requirements. It is absolutely essential for an employee to record his time of each entry and exit.

Green HR Practices

Green HR practices is concerned with the protection and preservation of natural resources through HR functions such as recruitment, training and development, performance management, and compensation management. Green HRM looks to promote the sustainable use of resources available with organization and protect the environment. HR people now believe that green HR practices can have positive impact on commitment, morale, quality of work life, engagement, and the retention of employees in the organization.

As part of Green HRM, managements carry out environment-friendly HR initiatives like electronic filing, car-sharing, teleconferencing and virtual interviews, recycling, telecommuting and online training. The purpose here is to reduce the usage of consumables like paper, plastic, envelope, ink toner, etc that have negative environmental impact. We shall now see the possible green practices in different HR functions.

Green Recruitment initiatives-Green Recruitment implies an eco-friendly and paper-free recruitment process. The green recruitment involves

1. Inviting Applications through online mediums like e-mail and filling of online application form by candidates.
2. Conducting virtual interviews like telephonic, online and video interviews. Virtual interviews reduce recruitment related travelling by the candidates and paper works.
3. Choosing competent people who believe in green initiatives.

Green training initiatives - Green training involves the integration of environmental training into the overall training programme. During training, the importance of environment can be emphasized as follows:

1. Training employees in the principles of sustainable development. Training employees to develop knowledge in environment management and green skills.
2. Employing online and web-based training modules and interactive media as training tools to train employees. In this regard, internet, intranet, web-sites, blogs and email can be extensively used to reduce the paper work.
3. Familiarizing the new employees with green aspects of the organization during the induction stage. Induction programmes can discuss the green issues like green working conditions, employee health and safety, energy efficiency, waste management and recycling.
4. Forming green teams with environment friendly employees to suggest measures to improve green initiatives in training and other HR functions.

Green Compensation initiatives

Organizations can also use their compensation policies and practices to protect and preserve environment. The reward system of these organizations should have features to attract and retain eco-friendly candidates. In this regard, management can try the following measures.

1. Organizations can offer rewards to the managers who cultivate green habits or practices among employees.
2. Management can provide rewards to employees who practice green initiatives like use of bicycles and pollution-free vehicles for commuting to and from office.
3. Organizations can give green rewards to units, departments or individual employees for suggestions relating to waste reduction, nature-friendly workplace, etc.

Green Performance Evaluation Initiatives

Organizations can make use of performance evaluation measures to reinforce the importance of green management among managers and employees. This can be done through the following:

1. Introducing green standards in performance evaluation process. Green targets, goals and responsibilities should be established for employees and managers.
2. Communicating clearly the roles and responsibilities of every employee in promoting green initiatives and achieving green-outcomes.
3. Conducting environmental audit to determine whether employees comply with the relevant green values and practices.
4. Introduction of e-evaluation system for evaluating the performance of employees.

Other green Initiatives

Besides the abovementioned green HR activities, organizations can also undertake green initiatives like (i) giving donations to green causes (ii) encouraging employees to plant trees inside and outside the office premises (iii) organising entertainment programmes which highlight the importance of green issues among employees and their family members and the general public (iv) posters with green slogans can be displayed at all vantage points inside the office and factory premises of the organizations and (v) conducting green propaganda to create awareness about the impact of environment degradation.

Summary

1. Promotion is an employee’s upward mobility in the organizational structure accompanied by increased authority, responsibility, compensation and social status. The three criteria for employee promotion policies are merit, seniority and seniority cum-merit.
2. Demotion is defined as an employee’s downward mobility in the organizational structure, which is normally accompanied by reduced authority, responsibility, compensation and social status. The purposes of demotion are administrative convenience, inefficiency, disciplinary action and voluntary demotion.
3. Horizontal shifting of employees from one job to another without any job-related increase in the pay, benefits and status of the employees is called transfer. The purposes of transfers are: optimum utilization of skills, training of employees, enforcing disciplinary action, fulfilling an employee’s request and being a motivational tool.
4. Separation is basically classified into two types. They are voluntary separation and involuntary separation. Voluntary separation refers to the separation of employees on their own request, while involuntary separation means their separation for organizational reasons which are beyond their control.

5. The types of separation are retirement, resignation, removal (including dismissal or discharge), retrenchment and lay-off.
6. Discipline refers to employees' observance of standards of behaviour set by the organization. The objectives of discipline are accomplishing goals, developing a responsive workforce, changing employee behaviour, improving morale and motivation, exercising better control over employees, ensuring consistency in action, promoting industrial relations and substituting personal supervision.
7. The three types of disciplines are positive discipline, negative discipline and progressive discipline
8. A grievance is a written complaint by an employee, which is about unfair treatment. The techniques of grievance identification are exit interview, gripe-box system, opinion surveys, open door policy and observation.
9. Industrial relation is a process through which an organization controls the employer–employee relations in the organization and this process may involve continuous communication and consultation between them.
10. The objectives of industrial relations are building cordial relationships with the employees, connectedness, safeguarding mutual interests, utilizing collective wisdom, preventing industrial conflicts, fostering industrial democracy, avoiding exploitation and providing a dynamic role for the government.
11. Employee welfare means the facilities provided to the employees in excess of the statutory requirements and with the intention of enhancing their general well-being.
12. SHRM is the process of aligning HR strategies with the business strategy for effective accomplishment of organizational goals.
13. Characteristics of SHRM are: (i) it is performed at the higher levels of managements, (ii) line managers play a more prominent role in strategy formulations, (iii) it focuses more on estimating and fulfilling the long-term HR requirements, (iv) HR strategies and business strategies remain interconnected and (v) it attempts to gain competitive advantage.
14. Workforce diversity refers to the varieties in the demographic profile of an organization's workforce
15. Ethics refers to ethical principles and practices that influence and guide the behaviour of individuals and groups. A written statement of these ethical principles and practices is described as a code of ethics.
16. Emerging trends in HRM include people-centric quality measures, declining employee loyalty, enlightened workforce, global mobility, advent of HRIS, individual bargaining and human resource outsourcing, E-commuting and Flexi-time work.
17. Green HRM is concerned with the protection and preservation of natural resources through people management functions such as recruitment, training and development, performance management, and compensation management.

Review Questions

Short-answer questions

1. Mention the objectives of promotion.
2. What is meant by the term demotion?
3. State the meaning of transfer.
4. Explain the meaning of the term separation.
5. Define the term industrial relations.

6. What do you mean by discipline? Why is it necessary?
7. Write a short note on employee grievance.
8. State the meaning and feature of employee welfare?
9. Mention importance of workforce diversity.
10. What is meant by Green HRM?

Essay questions

1. Critically examine the various criteria for conducting promotion selection.
2. Separation is a sensitive issue and hence requires utmost care and caution. Discuss.
3. Discuss the meaning and objectives of industrial relations.
4. Evaluate critically the different types of discipline with suitable examples.
5. Disciplining an employee is the most complex task for the management of a company. Discuss.
6. Explain clearly the sources of grievance using examples
7. Describe the meaning and characteristics of strategic HRM?
8. Discuss in detail the prerequisites for the success of workforce diversity management.
9. Enunciate the emerging trends in HRM.
10. Critically evaluate the role and relevance of Green HRM in the present scenario.

Case Study

Can perks withdrawl address recession?

Natco Car Limited is a popular company in the passenger car segment of the automobile industry. It has a significant market share. It offers five popular brands of cars to its customers. The major philosophy of this company is “customer satisfaction through employee satisfaction”. It strongly believes in the HR principle of “happy employees are productive employees’: This company offers one of the best and most friendly environments for the employees to grow in their organizational and personal lives.

It has many novel incentive schemes and attractive fringe benefit schemes to attract and retain the best talents. This company’s incentives and fringe benefits package alone accounted for nearly 7.6 per cent of its cost of production. In fact, the excellent cordiality in labour-management relations and the high employee productivity coupled with high product quality were viewed by the company as an outcome of this generous incentive and benefits schemes.

However, recent developments in the economy and the industry in particular suddenly made the company vulnerable in the market. These developments are (i) recessionary conditions gripping the economy, (ii) the entry of low-cost budget cars in the market, and (iii) its high health- care cost due to die recent spurt in the reimbursement requests for medical and hospital expenses. Recessionary trends led to a free fall of the prices in the market and automobile goods, being a luxury item, were obviously the worst affected. Besides, the introduction of low-cost cars by the competitors compelled the company to think seriously about cost-cutting measures. To add to its woes, in the recent past, the company received an unusually high number of medical reimbursement bills as more and more employees reported major health problems. This apparently pushed up the HR cost and caused anxiety in the company about the deteriorating conditions of the general health of the employees. As a combined effect of all these developments, the company began to lose its price advantage fast and its market share began to shrink gradually.

The top management of the company insisted on reviewing its HR cost in order to withdraw some of the benefits offered to its employees. Understandably, the fringe benefits, particularly the health -care benefits, received top priority for cost reduction after the reviews. The management was now determined to impose stiff restrictions on the reimbursement of medical bills, thereby making it virtually impossible for the employees to get ant medical benefits.

However, the HR department was ranged against such moves. It insisted on continuing with the health-care schemes, perhaps with some minor modifications. Interestingly, it came up with an alternative proposal which suggested that the employees must be educated continuously and made aware about the health problems affecting them.

It also proposed periodic medical tests at the factory premises to diagnose their health problems at an early stage. This preventive approach, the HR people believed, could help the employees attend to their health problems at the right time and avoid major health crisis and the resultant huge medical bills for the organization. The HR department emphasized that any drastic measures, like the withdrawal of health benefits, could discourage the employees, thereby jeopardizing the employee retention strategies of the organization. The suggestions of the HR department were forwarded to the top management and its response was awaited.

Questions

1. How do you assess the situation of Natco Car Limited from the HR perspective?
2. What will be likely response of the top management to the suggestions made by the HR department?
3. If you were to be in charge of the HR department, what would your suggestions be to solve the problems of the company?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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PART V:

Directing

CHAPTER 11

Directing

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning and characteristics of directing
2. Enumerate the importance of directing
3. Explain the process of directing
4. Understand the techniques of directing
5. List the activities involved in directing
6. Enumerate the principles of directing
7. Describe the elements of directing
8. Understand the meaning and characteristics of supervision
9. Enumerate the approaches to supervisory management
10. List the challenges to supervisory management
11. Provide an overview of human behaviour in organizations

India's Inspirational Managers

Venu Srinivasan is the chairman and managing director of the TVS group comprising Sundaram Clayton Ltd and TVS Motor Company, the third largest two-wheeler manufacturing unit in India. Srinivasan's hard work, persistence and obsession with excellence resulted in this Indian company emerging as a company of global quality and recognition. He insisted on three basic philosophies of: (i) leadership at every level, (ii) keen eye for quality and (iii) understanding customers. He wanted his employees to believe that each one of them is a leader at TVS Motor and adopt the "do it right the first time" approach. During his tenure as the managing director of Sundaram Clayton Ltd, Venu Srinivasan achieved a turnaround in the fortunes of the company by restructuring its operations, solving labour problems, investing in new technologies and introducing total quality management practices. He was given the J.R.D. Tata Corporate Leadership Award by the All India Management Association (AIMA) in 2005. Under his stewardship, TVS Motor became the first two-wheeler company in the world to get the prestigious Deming Prize for quality.

Introduction

Directing (also referred to as leading)[1] is a process in which the management tells its employees what is to be done and ensures through guidance and supervision that it is done. It basically deals with the interpersonal relations and aims at converting plans into action. Directing makes sure that the organizational objectives and plans are effectively accomplished within the available resources and time frame. In a way, directing is considered to be the heart of the management process as planning and organizing serve no purpose without it. Even though directing in general includes all those activities performed by the managers to make employees to work willingly and efficiently, it basically involves leading, motivating and communicating with the employees. Management provides directions to its members by performing leadership, motivation and communication functions.

Directing, which is a physical act of managing employees, is not an easy task as human behaviours are rarely similar, consistent or predictable. Behaviour not only differs from one individual to another, but also differs within an individual from one situation to another. Individuals have different personality, attitudes, values, perception, motives, abilities and aspirations. Managers cannot perform their tasks satisfactorily without developing a reasonable degree of understanding of the people around them. To be successful in directing, managers need to be good at emotional intelligence, communication, motivation, teamwork, delegation and relationship management.[2]

Definitions of Directing

Directing is instructing, guiding and overseeing of employee performance. This is the essence of many definitions of directing. Let us now look at a few definitions of directing.

"Directing is the process by which personnel are inspired or motivated to accomplish work."—Russell C.[3]

Swansburg[3]

“Directing concerns the total manner in which a manager influences the actions of subordinates.”—Joseph L. Massie[4]

“Directing (leading) is a management function that involves working with and through people to accomplish organizational goals.”—Stephen P. Robbins[5]

“Directing (leading) is the management function that involves the manager’s efforts to simulate high performance by employees.”—Bateman[6]

Characteristics of Directing

The main features of directing based on the definitions are as follows:

- **Top-down approach**—In directing, the directions are issued from the higher levels to lower levels in the organizational hierarchy.
- **Command function**—Directing as a command function typically involves the issue of orders or instructions by the superiors to their subordinates. However, directing also includes activities like guiding, inspiring and mentoring of the subordinates by their superiors.
- **Pervasive function**—Directing per se is performed at different levels across the whole organization. Certainly, directing is an integral part of any level of management and it invariably happens wherever superior–subordinate relations exist.
- **Continuous activity**—Directing, as a managerial function, is continuously performed throughout the life of an organization. It is essential for the performance of other managerial functions such as planning, organizing, staffing etc.
- **Influences human behaviour**—Directing is an act of influencing the behaviour of the subordinates by the superiors. The purpose of influencing other’s behaviour is to get their willing cooperation for organizational goal accomplishment.
- **Delegated function**—Directing powers are usually delegated to the lower levels of the management for the sake of better administration and time management. Delegating is a major aspect of directing function of the management.

Importance of Directing

The primary purpose of directing is to inspire the organizational members to produce products or services that satisfy the customers and promote the vitality of the organization. We shall now look at the other specific purposes of directing.

- Directing facilitates managers to get the best out of their employees through their effective performance and willing cooperation.

- It helps the employees to know what is expected of them in their job. It also helps them to begin their activities needed for goal accomplishment. Instruction and orders issued by managers as a part of the directing process helps the employees to understand, commence, proceed with and complete their work.
- It enables managers to continuously coordinate the different activities performed by their subordinates. Proper coordination between all members in an organization is essential for effective achievement of the goals of the organization.
- Directing helps the management to make optimum utilization of the human and physical resources of the organization. Clear and specific directions can help the employees understand their jobs better and minimize the wastage of resources.
- Directing enables managers to encourage and motivate the employees to willingly cooperate and perform better in their jobs through direct interactions. In other words, directing initiates and maintains actions towards desired objectives.[7]
- Good and harmonious relationship with subordinates is an essential prerequisite for the superiors in achieving success in their directing function. This way, direction helps in improving the relationships existing among the organizational members.
- Directing helps employees to accomplish their organizational as well as personal goals. In case of conflict between organizational interest and individual interest, directing ensures that the individual interests do not interfere with the organizational interest.[8]
- Directing enables the management to initiate, conduct and complete changes in the environment. This is done by invoking thoughts and discussion among employees about such changes. Directing done through communication and motivation allows the management to achieve success in the organizational change process by generating employee awareness and willingness necessary to adapt to changes.
- Long-term stability of the organization can be ensured by the management through various elements of directing like trustworthy leadership, open and effectual communication, effective motivation and proper supervision. Conflicts that threaten the stability of the organization can be resolved by managers by resorting to direct and immediate actions.

Process of Directing

Planning function involves the determination of organizational goals for the future while organizing function involves the arrangement of the resources required to perform the jobs. Staffing function brings and maintains the necessary human resources whereas controlling function monitors and checks the employee performance towards the end. Coordinating function harmonizes the various organizational activities. But it is the directing function that actually initiates, manages and completes the activities necessary for goal accomplishment.

The process of directing may differ from one organization to another depending on the factors inherent in its environment. The following directing process has been developed keeping in mind the specific requirements of nursing management.[9] However, the basic steps in this directing process can be adopted by any organization by making necessary modifications. The steps involved in this process are as follows:

1. Motivating
2. Facilitating collaboration
3. Coordinating
4. Delegating
5. Effectively managing conflict

The eventual outcome of any directing process is the accomplishment of organizational goals, objectives and mission. In this context, it is essential to ensure that there is commitment, competency and clarity of purpose among all those involved in the directing process to ensure its success. It is also essential to evaluate the efficacy of the directing process through feedback and performance indicators since directing is a lifelong process of an organization. The results of such feedback and performance evaluation must be promptly and objectively used to improve the directing process. Further, the directing process of an organization must be flexible enough to quickly adapt itself to the emerging trends and changes in its environment.

Techniques of Directing

Managers can develop and adopt their own style to direct the activities of their employees. Any decision relating to a technique or style of directing fundamentally depends on the characteristics of the environment. Figure 11.1 shows some general techniques of directing that are available for managers to choose from to suit the occasion and serve their purpose. We shall now look at these techniques briefly.

1. **Democratic or consultative directing**—When managers consult their subordinates and obtain their opinion before arriving at decisions, then that directing style is described as consultative directing. However, the final authority to decide on the matter on hand and issuing orders rests with the managers. The subordinates' suggestions will have no binding effect on the managers as managers will usually retain the right to accept or reject those suggestions. This form of directing normally improves the relationship between the superior and subordinates and makes the latter more responsible in their job. This method also promotes free exchange of ideas and opinions within the organization and also enhances the quality of

decisions made. It also improves employee morale and job satisfaction.

However, democratic directing is a time-consuming decision-making process. It may make the subordinates feel that they have the right to be consulted in every decision made by the managers.

2. **Autocratic or dictatorial directing**—When managers decide and issue orders on organizational matters without consulting their subordinates, it is called autocratic directing. Here, managers typically hold and exercise vast powers and expect their subordinates to merely carry out their orders. The focus of these managers is on task completion and goal achievement, and human relations get less priority in their administration. It also deprives the subordinates of learning managerial and decision-making skills. This style of directing can discourage employee initiatives, innovation and participation in decisions. However, this style of directing facilitates faster decision making by managers in a rapidly changing environment.
3. **Free-rein or laissez-faire directing**—When directing and decision-making powers are almost fully delegated to the subordinates by the managers, then such directing style is called free-rein directing. In this technique, the subordinates themselves develop the ideas to solve the problems and also execute them. Here, the role of the superior is predominantly that of an observer. Superiors are readily available for consultation but offer their suggestions only when explicitly asked for by their subordinates. The typical process involved in this directing style is that the superior transfers the task, explains the problem, provides a broad outline but leaves the decision and its execution to the subordinates. This method is practicable only when the subordinates are knowledgeable, skilled and possess the capability to handle the problems independently. This method may be effective only when it is combined with other techniques.[10]

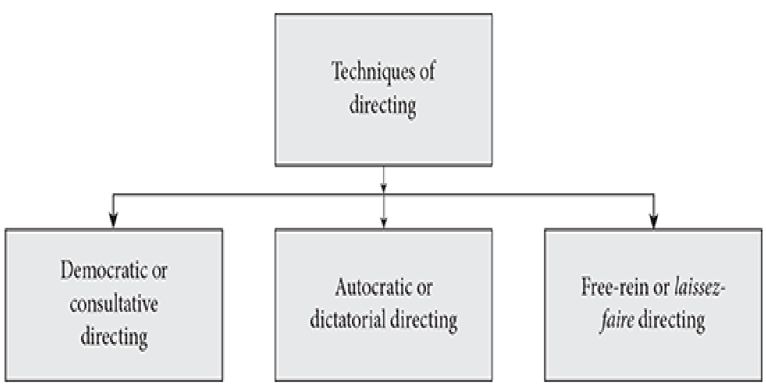

Figure 11.1
Techniques of Directing

Depending on the prevailing environment, nature and number of employees, and characteristics and urgency of the problem, managers may choose to adopt a specific directing technique.

Activities in Directing

Through the elements of directing like communication and motivation, managers can successfully perform diverse organizational activities. The activities generally carried out by managers through directing function are as follows:

- Facilitating the accomplishment of organizational mission, vision, objectives and goals.
- Developing and using strategic and tactical plans and implementing operational plans.
- Maintaining and supplying requisite resources, including physical and human resources.
- Providing training and development programmes necessary to preserve and promote employee knowledge, skills and competency.
- Ensuring effective and faster communication for well-organized information dissemination.
- Offering guidance and motivation through leadership process.
- Maintaining and promoting interpersonal relationships among organizational members.
- Setting standards through rules, regulations, policies and procedures and also facilitating the interpretation of those rules, policies, procedures, etc.
- Keeping up and fostering employee morale.
- Providing counselling and coaching to the employees.
- Inspiring employees by emphasizing on trust, cooperation and team work among employees.
- Ensuring effective coordination among the organizational members.
- Identifying and resolving employee grievances and conflicts.
- Controlling the activities and process to maintain quality and performance.
- Guiding and counselling employees in deciding and designing their career plans.
- Facilitating the development of new methods, process and procedure for effective performance of jobs and tasks.
- Preserving and promoting group dynamics necessary for successful job performance and goal accomplishment.

Principles of Effective Directing

Principle is an accepted or perceived rule of action or conduct. The principle of directing states the rules to be followed in the case of activities concerning the directing functions. We shall now see the important principles governing the direction function of the management.

1. **Principle of harmony of objectives**—According to this principle, the effectiveness of directing depends on the degree to which the individual objectives of the employees are harmonized with the group and organizational objectives. When managers succeed in reconciling the employees' personal objectives with that of the organizational objectives, better compliance from employees can be achieved.
2. **Principle of direct supervision**—This principle insists that the managers should maintain direct and constant contact with their employees to create a sense of security and oneness among

them. According to Harold Koontz, “the more the direct personal contact with subordinates is, the more effective will their direction be.” Direct and personalized contact with subordinates will enable managers to achieve the desired levels of employee motivation and commitment. This will enable managers to detect dissatisfaction and grievances among employee early and solve them promptly.

3. **Principle of unity of command**—This principle insists that each subordinate should report to one boss only. When an employee is accountable to a single boss for a given assignment, then he or she cannot avoid accountability and indulge in “passing the buck.” Moreover, unity of command enables managers to develop supportive relationship with their subordinates and thus achieve high morale in the work environment.[13]
4. **Principle of appropriateness of direction technique**—According to this principle, the direction technique to be used by managers should be suitable for the situation, people and job or task. Organizations typically apply democratic, autocratic or free-rein technique to direct the activities of the employees. The choice of direction technique can affect the efficacy of the directing function in the organization.
5. **Principle of maximum individual contribution**—According to this principle, there should be maximum contribution from each organizational member towards goal fulfilment. Organizations should create a facilitating environment in which employees play a voluntary, spontaneous and proactive role in organizational activities.
6. **Principle of flow of information**—This principle states that the communication system must be good enough to permit free flow of information between the superiors and the subordinates. Adherence to this principle in direction will facilitate better mutual understanding and cooperation among organizational members.
7. **Principle of leadership**—This principle emphasizes that managers should possess all the qualities of a good leader. Managers with good leadership skills can inspire, guide and counsel their employees well and also win over their trust, confidence and goodwill.
8. **Principle of strategic use of informal organization**—As per this principle, direction will be effective only when informal organizations support and supplement the role of the formal organizational structure and official relationship existing within the organization. It is essential to strengthen informal organization that allows accelerated and improved responses to unanticipated events, and enable managers to solve problems through collaboration and cooperation.
9. **Principle of follow-through**—Since directing is a continuous affair of an organization, it is essential to ascertain its efficacy through appropriate feedback and follow-up. After issuing orders and guiding subordinates, managers should find out how effective their directions are in accomplishing the goals and plans and also in achieving compliance from employees. If necessary, managers must relook and revise their directing style to make it more effective and suitable in future.

Elements of Directing

Directing is the ultimate action of managers in getting others to act after the plans and preparations are completed. Managers implement the organizational plans through the process of directing. As illustrated in Figure 11.2, the important elements of directing are motivation, communication and leadership, besides supervision. We shall now briefly discuss each of these elements.

Figure 11.2
Important Elements of Directing

Motivation

Motivation is an internal state that arouses employees to action and assists them in maintaining that arousal and action. In simple terms, motivation is the set of factors that causes people to behave in a certain way.[14] It is the process of encouraging employees to voluntarily give their best in the job so that the performance goals are achieved effectively. It involves identifying and influencing people's behaviour in a specific direction. Motivation works with the individuals' desire, energy and determination and stimulates them adequately to realize the predetermined goals. People's desire for money, success, job satisfaction, recognition and team work can be used for stimulating them. Motivating employees is an important and continuous management concern as lack of employee motivation can affect the organization's initiatives and individual's performance.

Since every individual has a different set of needs and goals, it is essential to identify and fulfil those needs through appropriate motivational techniques and tools. Basically, motivation can be classified into intrinsic motivation and extrinsic motivation. Intrinsic motivation usually comes from inside an individual without any external rewards. In contrast, extrinsic motivation usually comes from outside an individual. Increased pay, promotion, etc. are examples of extrinsic motivation while the satisfaction derived from the completion of the job can be an instance of intrinsic motivation.

Generally, the extent of effectiveness of motivation is decided by the presence of three Cs namely, collaboration, content and choice.[15] Employees are better motivated to work harder when they are encouraged to collaborate and cooperate with others. Similarly, employees are more motivated when they feel that their work adds value to the organization, society, etc. Likewise, employees are greatly motivated when they believe that they have the power to make decisions on their job. The success of motivation is determined by the direction of a person's behaviour, his or her level of effort in the job and level of persistence in the face of obstacles.[16] Chapter 16 discusses motivation in detail.

Communication

Communication is a process by which information is shared and understood by people. It is one of the major determinants of success of directing function. Effective communication is important for managers in improving interpersonal relations with others in the organization. It is important for managers to ensure that their communication practices are systematic, constant and well-connected with the organizational structure. Managers need to acquire specialization in all forms of communication to effectively manage the diverse workforce. Typically, managers should have expertise over two distinct forms of communication, namely, interpersonal communication and organizational communication. Interpersonal communication refers to the communication between two or more persons. Organizational communication includes all forms, patterns and systems of communication available within

[17]

the organization.[17] Communication practices can also be classified as formal and informal, verbal and non-verbal, and oral and written communications.

Communication is essential for efficient execution of other managerial functions like planning, organizing, staffing, coordinating and controlling the organizational resources. Effective communication enables managers to convey messages to their subordinates and others powerfully and persuasively. Managers can also get their subordinates and others act on their messages quickly and properly. Communication is thus critical for managers in performing four major functions, namely, information dissemination, control, motivation and emotional expression.[18]

Normally, managerial communication passes through formal as well as informal channels of the organization. Formal channel refers to the official organizational structure. Formal channels are frequently used to transmit orders, reports, policy, manuals, procedures, etc. Informal channels, in contrast, are those channels that remain outside the formal organizational structure. Informal channel is built around the social relationship existing among the organizational members. In fact, members use informal channels mainly for fulfilling their personal and/or emotional needs. Communication is discussed further in Chapter 14.

Leadership

Leadership is the process of influencing the behaviour of members in such a way that they work willingly and enthusiastically towards the accomplishment of goals and plans of the organization. Leadership may be defined as the process of influencing the activities of an organized group in its efforts toward goal-setting and goal achievement.[19] Effective and dynamic leadership is one major characteristic that can separate successful organizations from unsuccessful organizations. The successful leader’s commands are willingly and voluntarily followed by others in an organization. Leadership usually has three dimensions, namely, the leader, the followers and the situation. Each dimension influences and gets influenced by other dimensions. The success of leadership depends on the nature, type and frequency of interactions happening among these factors. The degree of success in goal accomplishment does not depend on the personal attribute of a leader alone, but also on the needs of the followers and nature of the situation. Box 11.1 shows the initiatives of a private company in enhancing the efficacy of its directing function.

Managers become successful leaders when they possess diverse skills and abilities necessary for managing the workforce. They need to have technical qualities, initiative qualities, administrative abilities, intellectual skills, emotional control, enthusiasm, self-awareness, situation awareness, human relations skill and communication skills, besides personal qualities. This leadership is usually classified into autocratic, democratic, bureaucratic, *laissez-faire*, participative, transactional and transformational leaderships. Chapter 15 discusses leadership in detail.

Supervision

Supervisors are typically the link between the managers and the workers. They are the members of the first level of management. They directly interact with the workers to get the organizational goals accomplished. Supervisors generally spend more time on directing and less time on planning as compared to the managers belonging to higher levels. To be successful, supervisors need to focus more on their technical and human relations skills and relatively less on administrative skills.[20] Supervision is basically a process by which superiors guide their immediate subordinates in a way that benefits the organization as well as the employees. The twin aim of supervision is to ensure that subordinates make optimum use of their knowledge, skills and abilities and customers get enhanced satisfaction.

Box 11.1
Enhancing the Efficacy of Directing Function—A Blue Dart Express Initiative

After talent shortage and attrition became the burgeoning problems for today's organizations, managements tried to incorporate motivational values in their system of administration. In this regard, there is growing realization among the Indian managers that their employees cannot be continually motivated through stereotyped motivational means. They need to develop motivational techniques that fulfil the different needs of different people at different times. In this regard, the motivational initiatives of Blue Dart Express are worth mentioning.

Blue Dart Express is a premier courier and integrated express package distribution company in India. It has won the award for "Best Motivational Practice in Services" from the All India Management Association for its motivational programmes and practices. This company conducts an annual Employee Satisfaction Survey (ESS) to evaluate employee satisfaction levels across the entire organization. The satisfaction survey focuses on dimensions like immediate leadership, corporate leadership, organizational identification, work-group co-operation, job conditions, etc. The survey results provide the management with a glimpse of the extent of its workforce motivation and morale. The "People First" policy of this company focuses on internal communication systems, constant feedback, rewards and recognition and other employee support mechanisms, which ensure that its workforce remain loyal to the organization.[35]

Supervisors are generally involved in the activities of: (i) issuing oral and written orders and instructions, (ii) framing time schedules for completion of work, (iii) assigning duties to the workers, (iv) checking the quality and neatness of the work done, (v) correcting the errors and mistakes and (vi) maintaining harmony among the workers. Since supervisors have to deal with the diverse workforce, it is essential that they possess a wide range of skills, qualities and competencies. These skills and competencies may include, among others, technical knowledge, interpersonal relations skills, self-motivation, problem-solving skills, stress management, loyalty and leadership skills besides good physical and mental health. Supervisors usually deal with the routine problems that arise during the course of their work. A few examples of these problems are employee absenteeism and customer complaints.

Definitions of Supervisor

Direct contact with the subordinates to supervise their day-to-day activities is the essence of many definitions of supervisors. We shall now look at a few definitions of supervisors.

"Supervisor is a manager who is in charge of, and coordinator of, the activities of a group of employees engaged in related activities within a department, section or unit of an organization."—Lester R. Bittel[21]

"A supervisor is anyone at the first level of management who has responsibility for the work of others."—Noel Harvey[22]

"Supervisor is the term used to describe the first line authority that spends the majority of his or her time of supervisory duties."—Bolton W[23]

"A supervisor is member of the most junior level of management in the organization."—David Evans[24]

Characteristics of Supervisors

Based on the definitions, the following characteristics can be listed about supervisors and supervisory jobs.

- Supervisors are the interface between the management and non-managerial workforce of the organization. They are often seen as the face of the management by the workers since supervisors are their immediate superiors.
- Supervisors make operational decisions concerning their department, division, units, etc.
- They are engaged in the process of converting the organizational resources into output. For instance, workforce, material, equipment and information are converted into output such as product, service or profit.
- Supervisors help their subordinates when the latter face problems and make mistakes in their performance.
- Supervisors perform the roles of a leader, decision maker, planner, organizer, motivator, coordinator, communicator, controller, reward[25]

administrator, change agent and trainer.

- They supervise the day-to-day activities of the organization. For instance, production supervisors are in charge of the everyday production process of the organization.
- Supervisors ensure effective execution of tasks by the subordinates and also maintain the standards prescribed for each of these tasks. They are thus responsible for the work of their subordinates.

Based on the style of functioning, supervision can be classified into employee-centred supervision and job- or task-centred supervision. We shall now discuss these two kinds of supervisions.

Employee-centred supervision—In this kind of supervision, the emphasis of supervisors is on understanding the feelings and sensibilities of the subordinates. They develop a genuine concern for the well-being, i.e. the physical and mental health of their employees. They give top priority to maintaining a cordial and mutually-beneficial relationship with the workforce. In the long run, this approach can help the management to get continued support and cooperation of its employees for all its ambitious goals and plans. This approach can also minimize the employees' resistance to change programmes initiated by the management.

Job- or task-centred supervision—In this kind of supervision, the primary focus of the supervisors is on achieving the performance targets and organizational goals through subordinates. Supervisors tend to adopt a goal- or result-oriented behaviour in their dealings with the subordinates. They are also mainly concerned with the impact of subordinates' performance and productivity on organizational goals and plans.

Approaches to Supervisory Management

Even though a supervisor can develop and practice their own style and approach in dealing with the operational situations, a few universal approaches are also available. As shown in Figure 11.3, these approaches are: systematic management approach, human relations approach, quantitative approach and contingency approach.[26] We shall now briefly look at each of these approaches.

1. **Systematic management approach**—This approach insists on the proper measurement and analysis of the different activities (tasks) performed by the subordinates to complete the work assigned and achieve the organizational goals.
2. **Human relations approach**—This approach assumes that the success of supervisors lies in their ability to understand the likely behaviour of their subordinates. According to this approach, such an understanding is essential for receiving the willing cooperation and support of the subordinates for achieving performance targets and goals.
3. **Quantitative approach**—This approach provides greater importance to the science of number, namely, mathematics and statistics. This approach insists on the extensive use of mathematics and statistics in supervisory management.
4. **Contingency approach**—This approach implies that the supervisors cannot depend on any one approach to deal with all kinds of environments and problems. According to this approach, the situation alone decides the type of approach to be adopted by the supervisors. It is hence imperative for the supervisors to understand the situation and the nature of the problem prior to choosing the management approach. In a nutshell, supervisors use one or more approaches depending on the characteristics of the situation or operation.

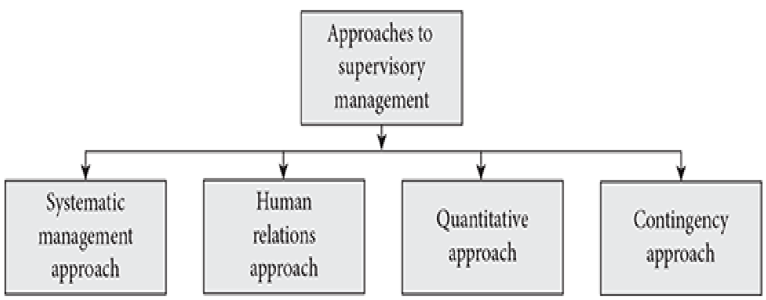

Figure 11.3
Approaches to Supervisory Management

Challenges Facing Supervisory Management

While getting the work done through their subordinates, supervisors face quite a few challenges from different sources. According to David Evans,[27] the major challenges faced by supervisors are: (i) lack of management support, (ii) lack of training, (iii) changes in technology, (iv) role confusion, (v) role overload and (vi) role conflict. We shall now discuss a few important challenges faced by supervisors in the course of their work.

- Supervisors act as representatives of the management to the workers and also deal directly with them. Consequently, they face the direct and immediate consequences of employee anger and displeasure, especially when the labour– management relations are strained.

- Supervisors are constantly under pressure to earn the trust and goodwill of both the higher-level management and the labour force. They often get caught in the middle when the demands and expectation of the management and employees are irreconcilable.
- They often experience difficulties in motivating heterogeneous workforce that has different needs, preferences, commitments and aspirations.
- Supervisors' job becomes all the more difficult in a constantly-changing and difficult environment. Frequent changes in the technology, consumer tastes and preference, workforce characteristics and management policies can create negative impact on the supervisors' job and preparedness.
- Besides their routine work, supervisors are also given the responsibility of training and motivating the employees to grow and improve in their respective fields.[28] Box 11.2 shows the efforts of a steel company to sharpen the skills and knowledge of its supervisory staff.

Essential Characteristics of Effective Supervisors

Since supervisors play a vital role in the managerial efforts to execute organizational goals, it is necessary to enhance their effectiveness constantly. Top management should concentrate on the development of the dual skills of the supervisors, namely, the behaviour-based skills and job- or task-based skills. Development of behaviour-based skills of supervisors will enable them to: (i) understand their subordinates well and build teams effectively, (ii) undertake initiatives to improve performance, (iii) clearly communicate their feelings and expectations, (iv) promote workforce diversity, (v) carry out performance evaluation objectively, (vi) settle conflicts amicably and (vii) effect changes successfully. In contrast, the fostering of job- or task-based skills will enable supervisors to: (i) improve the quality of work, (ii) identify the cost-reduction possibilities, (iii) develop and execute performance improvement plans and (iv) enhance process analysis and design.[29] However, supervisors must possess the following characteristics necessary to do the supervisory job effectively:

1. They should possess thorough knowledge of their job as this is an important prerequisite for commanding respect from their subordinates.
2. They should remain open to the ideas, suggestions and thoughts of their subordinates. Openness, good listening and a proactive approach will enable supervisors to gain the confidence of their subordinates.
3. They should issue reasonable orders, only then can they expect compliance from their subordinates. Such orders should be compatible with the organizational objectives and the subordinates' job.[30]

4. They must learn to recognize the good work of the people and praise them when they deserve it.
5. They must be good at motivating others and themselves. They should have the capability to motivate the employees, especially when they lack confidence in their ability to perform the jobs assigned to them. They must remain cool, composed and self-assured, particularly when they face challenging situations.
6. They should provide due importance for training the subordinates in their job so that they develop their full potential and do their work professionally and effectively.
7. Supervisors should allow their subordinates to enjoy job autonomy through proper delegation of authority and responsibility. However, the subordinates must be held accountable for the results.
8. They must understand the reason behind the failure of their subordinates, if any, and make subordinates accountable, just in proportion to their role in failure.
9. Supervisors must be impartial in all their dealings with the employees, especially when there are interpersonal conflicts.
10. They should remain approachable by making themselves available to the subordinates whenever they have concerns and problems.
11. They should be ethical and disciplined, only then can they expect their subordinates to behave so.
12. Supervisors must have the ability and dynamism to adapt quickly to the changes in the environment.

Box 11.2
Manthan Ab Shop-floor Se (MASS) at Tata Steel

In almost every organization, supervisors who act as the linking pins of the management and the workforce face the challenge of achieving results through the efforts of others. Since they work with and through their subordinates, they need to be aware of the supervisory functions and skills and also know how to apply modern supervisory management principles in the job situation. Given the complex nature of the supervisors' job, many organizations have undertaken specific and persistent measures to expand the knowledge and skills base of those people who perform supervisory jobs. In this regard, Tata Steel has introduced a knowledge discovery and sharing intervention programme for its supervisors. Let us look at its initiatives.

Tata Steel has launched ambitious programmes called "Aspire Knowledge *Manthan*" ("*Manthan*" means "churning of knowledge") and MASS ("*Manthan Ab* Shop-floor *Se*") for its supervisors. The objective of Aspire Knowledge *Manthan* is to instil confidence in employees and help them perform better. It aims at increasing the flow of knowledge throughout the organization by capturing tacit knowledge directly from the grass-root level and then using this across the whole organization. MASS ("*Manthan Ab* Shop-floor *Se*") is a supervisor-specific programme. It looks to promote the horizontal deployment of available knowledge assets at the plant-floor operator level. Supervisors at the shop-floor level are drawn from a variety of departments for participating in an eight-week knowledge discovery and sharing intervention. The entire programme is carried out in four phases of: (i) training and defining the scope of work, (ii) searching of knowledge assets, harvesting with shop-floor employees and experts, (iii) identifying good practices and (iv) syndication with departments and documentation.[36]

Human Behaviour in an Organization —An Overview

Any study of human behaviour in an organizational situation and of the interface between human behaviour and organization is called organizational behaviour.[31] Managers need to understand the behaviour of people at different levels of the organization, especially of those who directly work under them. This is because each individual working for the organization has a unique set of personal characteristics, distinct personal background and past experience. These characteristics and experiences influence and shape their behaviour and the resulting performance. An understanding of such behaviour will enable managers to predict and manage the employee behaviour at the workplace. Moreover, most of the activities relating to directing (like motivating, leading and communicating) aim at influencing the work-related behaviour of the members. Certainly, individual behaviour is at the heart of human motivation.[32] Managers can properly determine the type of directing technique to be used in a situation only on the basis of their understanding of the subordinates' mindset.

MARS Model of Individual Behaviour

According to the MARS Model, the four factors that influence the individual behaviour of employees in an organization are: (i) motivation, (ii) ability, (iii) role perceptions and (iv) situations.

- *Motivation* refers to the forces within the persons that affect his/her direction, strength and persistence of choice of behaviour.
- *Ability* refers to the capacity of a person to do a particular job. The ability of a person generally denotes a combination of mental ability (like memory and inductive reasoning), physical ability (like stamina, body coordination and physical strength) and motor ability (like reaction time, finger dexterity, etc).
- *Role perception* refers to an individual's views or beliefs on the suitability of a specific behaviour in a given situation.
- *Situation* refers to the situational factors that positively or negatively affect the behaviour and performance of an individual.
  The MARS Model states that these four factors have a collective influence on an individual's behaviour. An individual's performance is bound to decline if any of these factors get weakened.[33] Usually, the behaviours of individuals in organizations can be classified into one of the five forms, namely, task performance, organizational citizenship, counterproductive work behaviours, joining and staying with the organization and work attendance.[34] Let us discuss them briefly.
- *Task performance* means the voluntary goal-oriented behaviour of individuals which results in the production of goods or service and fulfilment of organizational goals.
- *Organizational citizenship* refers to employee performance that exceeds the standards or requirements. It is an exemplary and selfless behaviour that promotes organizational interest.
- *Counterproductive work behaviours* refer to the kind of individual behaviours (like work avoidance, work sabotage, etc.) that directly or indirectly hurt the organizational interests and goal-fulfilment initiatives.
- *Joining and staying with the organization* is a kind of behaviour that is essential for achieving positive behaviours such as task performance or organizational citizenship. If individuals do not like to stay with the organization for certain job-related reasons, they will be motivated to look for alternate employment.
- *Work attendance* refers to individuals reporting to work at scheduled time. Employees may abstain from work for reasons like work-related stress, job dissatisfaction and easy availability of leave with pay, including medical leave facilities.

Summary

1. Directing is a process in which the management tells its employees what is to be done, and ensures through guidance and supervision that it is done.
2. Features of directing are: (i) top-down approach, (ii) command function, (iii) pervasive function, (iv) continuous activity, (v) influencing human behaviour and (vi) delegated function.

3. The steps involved in the directing process are motivating, facilitating collaboration, coordinating, delegating and effectively managing conflict.
4. Techniques of directing are democratic or consultative directing, autocratic or dictatorial directing and free-rein or *laissez-faire* directing.
5. Principles governing the directing function of management are: (i) principle of harmony of objectives, (ii) principle of direct supervision, (iii) principle of unity of command, (iv) principle of appropriateness of direction technique, (v) principle of maximum individual contribution, (vi) principle of flow of information, (vii) principle of leadership, (viii) principle of strategic use of informal organization and (ix) principle of follow through.
6. Elements of directing are motivation, communication and leadership, besides supervision.
7. Supervision is a process by which superiors guide their immediate subordinates in a way that benefits the organization as well as the employees.
8. The two kinds of supervision are employee-centred supervision and job-or task-centred supervision.
9. Approaches to supervisory management are systematic management approach, human relation approach, quantitative approach and contingency approach.
10. Any study of human behaviour in an organizational situation and of the interface between human behaviour and organization is called organizational behaviour.
11. Factors influencing the individual behaviour of employees in an organization are: (i) motivation, (ii) ability, (iii) role perceptions and (iv) situations.

Review Questions

Short-answer questions

1. Define the term directing.
2. What are the characteristics of directing?
3. Briefly explain the process of directing.
4. Distinguish between democratic directing and autocratic directing.
5. Write a note on *laissez-faire* directing.
6. State the meaning of supervision.
7. What are the different kinds of supervision?
8. Explain the characteristics of supervision.
9. What are the various approaches to supervisory management?
10. State the MARS model of individual behaviour.

Essay-type questions

1. Enumerate the importance of directing as a managerial function.
2. Discuss in detail the activities usually carried out through the directing function.
3. Describe the important principles governing the directing function of management.
4. Critically evaluate the different elements of directing with appropriate examples.

5. Enumerate the challenges facing supervisory management in organizations.
6. Examine the essential characteristics of effective supervisors.
7. Explain the need for understanding human behaviour in an organization for effective directing.
8. Supervisors are the interface between the management and non-managerial workforce in organizations. Discuss.

Case Study

Behavioural Challenge of High Tech Workers

Akhil Vikas International is a top fast-moving consumer goods (FMCG) category company in India. It has quite a few well-known branded products which offer beauty, health and wellness solutions. It also keeps several popular brands of home care products, food and beverages.

The company considers product differentiation as its main and successful marketing strategy. To achieve product differentiation, it adopts the TQM approach production process. Though the total strength of its work-force around 12k, it enjoyed fairly good industrial relations so far. The unique HR policies and practices of the company were largely responsible for the cordial relationship between the superiors and the subordinates. There was a clear demarcation of duties and responsibilities between the supervisors and the workers, and this prevented possible conflicts and strains in the relationships.

However, the situation changed dramatically in the recent period after the company went in for the modernization of its plant. As part of its modernization programme, it recruited a big chunk of knowledge workers recently to operate the high- tech machines. These workers were assigned to supervisors in different production units after undergoing orientation. Contrary to expectations, the management observed some unease in the relationship between the supervisors and the newly appointed subordinates. There were frequent complaints of ill-treatment from the subordinates and of disrespect from the supervisors. Consequently, tension began to build between these two groups in the organization, leading to declining employee morale, quality levels and performance efficiency.

The management of Akhil Vikas was vexed over the development in the organization and decided to utilize the services of IDEA - an external OD agency-to resolve the issues of the organization. The IDEA team, in coordination with the HR department, conducted on OD survey to identify the cause of the frequent disputes between the supervisors and the subordinates. At the end of the survey, the team identified assertive and independent behaviour of the newly appointed high-tech workers as the cause of the disputes. The supervisors apparently perceived a direct challenge to their authority from these subordinates. Thus, there was clear distrust between the supervisors and the new subordinates. However, these very supervisors maintained normal and cordial relationships with the older subordinates.

The external experts attributed the crisis to the absence of any training for the supervisors in team- building and leadership. They also found the orientation and socialization provided to the new employees as grossly inadequate. Finally, the HR department, in collaboration with the IDEA team, organized a series of training programmes for the supervisors on topics like interpersoanl skill training, emotional intelligence, team building,cross-cultural understanding, motivation, personality-type training and conflict management. The HR department also increased the duration of the orientation programme for the new employees by making it more extensive and relevant. The management is now fairly optimistic about the outcome of its efforts.

Questions

1. According to you, who is to be blamed for the problems of Akhil Vikas International?
2. How do you assess the efficiency of the human resource department in carrying out the OD intervention porgrammes in general?
3. What will be the possible outcome of the joint efforts of the HR department and IDEA in terms of organizational development and change management?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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CHAPTER 12

Managerial Communication

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning and importance of communication
2. Enumerate the elements of communication
3. Elucidate the process of communication
4. List the types of interpersonal communication
5. Understand the forms of organizational communication
6. Explain the factors influencing organizational communication
7. List the barriers to organizational communication
8. Describe strategies to overcome communication barriers

India's Inspirational Managers

N. R. Narayana Murthy is the founder chairman of Infosys—a world-class software company. He played a pivotal role in making Infosys a USD 2 billion company. The vision, foresightedness and leadership skills of Narayana Murthy has won him many accolades at the international arena. *Time* magazine has voted him as one of the Asian heroes, along with Jawaharlal Nehru and Mahatma Gandhi, for bringing revolutionary changes in the country. *Time*/CNN declared him as one of the twenty-five most influential global executives for their lasting influence in creating new industries and reshaping markets. As a top manager of Infosys, Narayana Murthy emphasized on transparent corporate structure, good governance and global practices, farsightedness, strong systems and high ethical values. His key success factors include well-balanced leadership, well-conceived business plans, nurturing working environment, strong product differentiation, commitment to values, speed, excellence and imagination, scalability and strong capital base. His unique management philosophies are: (i) compassionate capitalism, (ii) better to be a small part of a large entity, than a large part of a small one, (iii) under-promising and over-delivering, (iv) customer is the king, (v) employee-friendly HR practices and (vi) decisions well-grounded in facts. As regards organizational communication, Murthy insists that the communication system must be such that it helps employees to have high aspirations, self-esteem, belief in core values, faith in the future and the willingness to accept challenges in the job.

Keeping the unique managerial skills of N.R. Narayana Murthy in the background, we shall now discuss the role and relevance of managerial communication in this chapter.

Introduction

Communication is a process by which information is shared and understood by people. Managerial communication may mean all forms of communication that emanates from the managers. It is an important means by which managers fulfil their tasks and duties and also the organizational objectives. Therefore, managerial communication is one of the major determinants of organizational effectiveness and success. As a managerial function, communication works through the entire organization and impacts all other managerial functions. Managerial communication usually occurs at different levels like intrapersonal, interpersonal, group, organizational and intercultural levels. It is important for managers to ensure that their communication practices are systematic, continual and well-integrated with the organizational structure. Communication practices can be classified into different forms such as formal and informal, verbal and non-verbal, and oral and written communication. Managers must gain expertise in every form of communication to become successful in managing today's modern, complex and diverse workforce.

Effective communication is essential for managers in improving interpersonal relations with others in the firm. Interpersonal relationship is important for successful accomplishment of other managerial functions such as planning, organizing, directing and controlling the organizational resources. This is because effective communication can help managers in conveying their messages to their subordinates and others, forcefully and convincingly. Managers can also get others act on their messages swiftly and correctly. In contrast, ineffective communication may result in misunderstanding, communication gap, decrease in employee productivity and organizational performance. Many studies have proven significant correlation between communication effectiveness, organizational turnover and financial performance.[1]

Individual and group performance of employees in general depends on the quality and effectiveness of the managerial communication. Further, recent challenges to managers in the form of increased competition, greater quality concerns and increasingly assertive workforce have all reinforced the need for effective communication. It is therefore essential for the top management to create an organizational environment conducive for effective and flexible communication system. Normally, managerial communication passes through formal as well as informal channels of the organization. Formal channel refers to the formal organizational structure or line of authority through which official information is sent. Formal channels of communication are used by managers to transmit orders, reports, policy, manuals, procedures, etc. Informal channel on the other hand usually exists outside the formal organizational structure. Informal channel is built around social relationship existing among the organizational members. This channel is used mostly for fulfilling the personal needs of the members. Certainly, management must keep both the channels open and active for managers and workers.

Definitions of Communication

The process of transmitting information from one person to another to achieve a common understanding is the essence of many definitions of communication. In the case of managerial communication, the focus is on the achievement of the organizational goal. In this context, we shall now look at a few definitions of communication:

"Communication is the process by which people attempt to share meaning via the transmission of symbolic messages."—James A. Stoner[2]

"Communication is the process in which actors use specially designed signals or displays to modify the behaviour of reactors."—Krebs and Davis[3]

"Communication is a process involving the selection, production, and transmission of signs in such a way as to help a receiver perceive a meaning similar to that in the mind of the communicator."—W. C. Fotheringham[4]

"Managerial communication is the downward, horizontal, or upward exchange of information and transmission of meaning through informal or formal channels that enables managers to achieve their goals."—R. L. Bell and J. Martin[5]

"Managerial communication is a process of speaking and receiving back feedback on what was said and perceived by the person receiving the message."—Peter F. Drucker[6]

We may define managerial communication as a process by which managers send and receive information for performing managerial functions such as planning, organizing, directing and controlling.

Communication Terms Associated with Business

Though, in general, many communication terms associated with business are interchangeably used, there are a few subtle differences among them. It is hence essential to understand the meaning of each of these terms in a specific context.

- **Management communication**—Refers to the complex communication process that arises as a result of execution of overall management functions.[7]
- **Managerial communication**—Refers to the specific communication between managers and their subordinates and the focus is on effective accomplishment of the task and goals in the existing business environment.
- **Corporate communication**—Refers to the verbal and/or written communication issued by a company with the intention of enhancing its corporate image and culture.[8]
- **Business communication**—Refers to the process of communication among business partners who are involved in direct transactions. Strategic talks or negotiations with business associates

and correspondence with financial and trade creditors are a few examples of business communication.
- **Organizational communication**—Refers to overall communication that occurs within the organization and aims at defining the relationship between the organization and its environment.

The main challenge of all these communications is to persuade the message recipients to respond positively and carry out intended actions. In the case of managerial communication, the aim of managers is to work with their subordinates by exchanging information with them. Managers should also provide and receive feedback for measuring and improving communication efficiency. The communications strategy of a private company are discussed in Box 12.1.

Importance of Communication

Communication, which is the life blood of any organization, is essential for accomplishing organizational goals and plans. Since managerial job basically involves getting work done through others, managers should spend considerable portion of their time for communication. Depending upon their hierarchical levels, managers spend nearly 70 to 90 per cent of their time communicating with others.[9] Managerial communication is critical to the successful execution of different managerial roles such as interpersonal role, informational role and decisional role by managers. Of all these, informational role consisting monitor, disseminator and spokesperson roles depends more critically on the communication system for its success. This is because managers constantly gather and disseminate information on almost every aspect of their job and responsibilities. Understandably, the aim of managerial communication is to develop and disseminate appropriate knowledge that can increase the effectiveness and efficiency of the managers.[10] We shall now look at the importance of communication in business from the managerial perspective.

Box 12.1
Tata Metaliks' Communication Strategy to Face the Challenge of Growth

As long as a company remains small and well-knit, the management is not unduly perturbed over its communication system, form, etc. As the organization grows in size and stature, efficient and timely communication becomes increasingly challenging and the communication style, form and system begin to matter to the management. Now there is a growing realisation among the managers that communication is a silent, yet main factor in the success of their internal and external operations. As a consequence, many organizations are now giving greater care to their organizational communication system and also solve their communication problems with a sense of urgency. Tata Metaliks' (TML) communication initiatives are a case in point.

Tata Metaliks promoted by Tata Steel developed a formal communication process in 2006 to meet its fast growing communication needs. The important modes of communication in Tata Metaliks are training and education sessions, focus meetings, bulletin board postings, Web site postings and emails. As far as Tata Metaliks is concerned, the open-door communication culture of its higher-level management and its meticulous knowledge dissemination process has guaranteed that communication flows through the entire organization in a hassle-free manner. Besides, the cross-functional interaction necessary for effective accomplishment of corporate goals and objectives are given due importance in Tata Metaliks. Lastly, each communicator in Tata Metaliks is entrusted with the responsibility for certain communication tasks.[33]

Planning—Planning involves collection of necessary information from internal and external sources for determining the best course of action. As a part of planning function, managers need to constantly interact with their subordinates and others through oral and written communication. In this regard, they may have to write letters, memos and reports to gather necessary information and also for explaining their plans. Surely, the planning ability of managers is critically influenced by their communication skills.

Organizing—Organizing involves relating people and physical resources to each other in such way that the organizational objectives are achieved. Communication facilitates organizing activities through its: (i) relationship function, (ii) organizing function and (iii) change function.[11] The relationship function refers to the role of communication in integrating organizational members with their work environment and making them socialize. The organizing function involves guiding, directing and controlling the organizational activities. The change function of communication facilitates the organizational process of problem analysis and problem solving, and innovation to constantly improve the quality of organizing.

Directing—Communication is essential for managers to influence and direct the behaviour of their subordinates towards goal and task achievement. It helps managers express their feeling, opinion and viewpoints easily and effectively. It is also necessary for managers in counselling, evaluating and supervising their subordinates. It also helps them promote discipline, responsibility and accountability among their subordinates. Communication can also help managers in conveying their interest in the well-being of their subordinates and thereby motivating them.

Controlling—Communication is a principal tool for managers in achieving effective managerial control. Downward communication helps them in controlling and coordinating with people at lower levels by passing necessary information, rules, regulations, processes and instruction to them. Upward communication assists managers in gathering relevant data from their subordinates for analysis and required action. This analysed information forms the basis for managerial control of finance, process, material and facilities.[12]

Industrial relations—A two-way communication process between managers and workers can create greater understanding between them and thus facilitate better understanding of each others' position. In the absence of appropriate communication, there is a possibility of misunderstanding, frustration, ego clashes and unrealistic expectations in the relationship. Ultimately, it can strain the labour–management relations leading to industrial disharmony and strife.

It is thus clear that communication is a key component of any organization. Studies on managerial communication have also emphasized the continuing importance and worth of communication to the business success.[13] However, the whole communication process involving people and physical instruments can be successful only when it achieves the desired audience response.

Communication Process

Communication as a process involves transmission of information from the sender to the receiver in an understandable manner. In the case of managerial communication, this process is usually initiated by managers with the intention of achieving organizational goals and objectives. As shown in Figure 12.1, communication process consists of key elements such as encoding, medium of transmission, decoding and feedback, besides the sender and the receiver. This process acts as a guide for effective sharing of common meaning and also for accomplishment of communication goals. We shall now discuss each component of the communication process.

Sender

Communication process begins with the sender who wishes to convey a message to the receiver. This message may be information, need, desire, feeling, idea or any other impression of the sender. The sender's mood, frame of reference, abilities, knowledge, proficiencies, approach and background can influence the formation of message to be sent. In case of oral communication, the speakers' body language, voice tone, vocabulary, physical appearance and other gestures can influence the effectiveness of the message delivery. In any case, the ability of senders in accurately predicting the likely response of the receivers and appropriately adapting their message to get best response from them is critical to the success of communication.

Encoding

Encoding involves the conversion (or translation) of sender's ideas, intentions and messages into understandable symbols in the form of words, colours, sounds and signals. The purpose of encoding is to establish mutuality of meaning between the sender and the receiver through common symbols and gestures. The extent of success in encoding depends on the way the receiver reconverts the encoded message and understands them as intended by the sender. For instance, if the sender uses red colour as a symbol to indicate danger, it must convey the same meaning to the receiver to get a desired response.

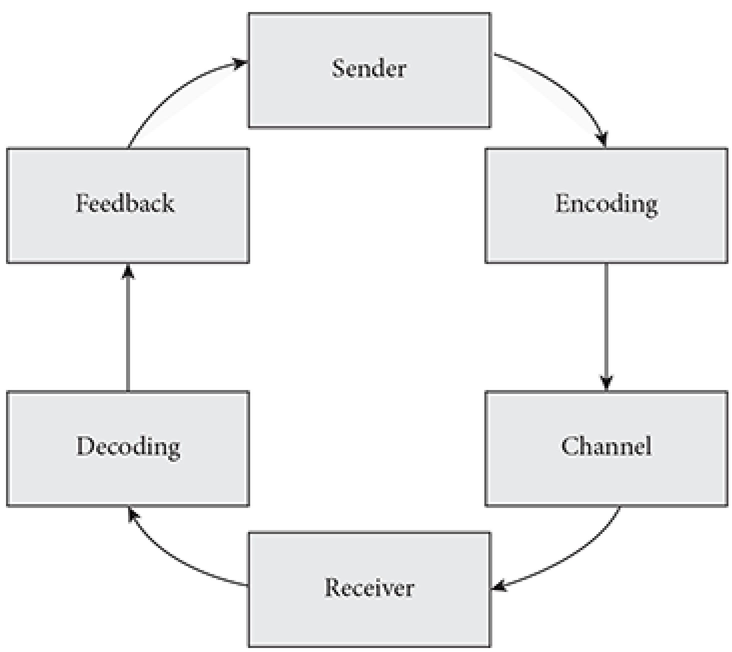

Figure 12.1
The Communication Process

The success of encoding critically depends on the sender's ability to foresee and eliminate the sources of confusion at the time of decoding the message. In the case of absence of common symbols between the sender and the receiver, there is bound to be misunderstanding, confusion and communication failures. It is hence essential for the senders to know the receivers' background details while deciding on the encoding. Finally, the nature and type of encoding for a message also depends on the channel of communication adopted.

Channel

Channel refers to the medium or vehicle by which message is transmitted from the sender to the receiver. Speaking and writing are the two basic mediums of message transmission. In this regard, the common channels of communication include fax, telephone, the Internet, meetings, conversations, lights, videoconferencing, radio waves and postal systems. The choice of communication medium is usually influenced by factors such as permanency of record, urgency of matter, nature of response required, (such as immediate response) and number of response. The choice is also influenced by other factors like nature of participation desired such as face-to-face meeting; number of receivers involved such as individual or group; nature of communication such as formal or informal and also the audience's channel preference.

Managers may also employ multiple channels to transmit information. Since each channel has its own strengths and weaknesses, managers usually look to minimize cost and maximize communication effectiveness while selecting channels.

Receiver

The person who gets the messages intended for him (or her) is a receiver. There may be single or multiple receivers for a message. The presence of common language, vocabulary, understanding and mutual interest between the sender and receiver are prerequisites for any communication to be meaningful. For the communication process to end successfully, the sender and receiver must reach the same understanding of the subject being communicated. However, the mood, preconceived notions or ideas and physical environment of the receivers can influence their understanding of the message received.

Decoding

Decoding is just the reverse of encoding. The process of breaking the encoded message and converting it into an understandable form is known as decoding. Through decoding, the receivers convert the symbols such as words and signals back into the sender's original message for ascertaining its meaning and determining their response. Decoding usually happens in two stages. The receiver first makes an impromptu perception of the encoded message and then breaks its code to know its exact meaning.[14]

Generally, the accuracy of decoding is affected by internal and external noise in the communication. Noise can be anything that affects the clarity and accuracy of decoding. Internal noise is caused by the receivers' attitude, feelings and past experiences. External noise is caused by disturbances in the channel and semantic problems resulting from misinterpretation and unintended meanings of symbols. Improper encoding by the sender can also affect the interpretation of messages by the receiver.

Feedback

The response of the receiver to the decoded message is usually known as feedback. It helps the senders in knowing whether the communication has produced the intended response. In most cases, senders seek and receive feedback from the receivers with the intention of assessing the efficacy of the whole communication process. Interestingly, feedback makes communication a circular and continuous process. It also helps the sender in determining the changes and improvements to be done in the existing communication process. Feedback may also be sent in a coded form by the recipient of the original message to the sender for decoding and interpretation. When direct feedback is not available for certain reasons, managers can consider declining productivity, high absenteeism and attrition, industrial conflicts, falling quality standards and absence of coordination among units as indicators of communication inefficiency or failure.[15]

The whole communication process can be considered as effective if the message was understood by the receiver in the same way the sender intended it. However, the effectiveness of any communication process is affected by the message, channel, environment in which communication occurs and the potential barriers to communication. In this regard, the sender's selection of an appropriate type or style of communication can make a substantial difference to the outcome of any communication process.

Interpersonal Communication

A communication process that involves face-to-face contact between two or more individuals is called interpersonal communication. In this form of communication, senders and receivers normally communicate through words, sounds, facial expressions, gestures and postures. Since there is a personal and direct interaction among the participants of the communication process, interpersonal communication often has an emotional appeal. Interpersonal communication can help the participants develop and strengthen personal relationships. Thus, interpersonal communication is effective in persuading, motivating and encouraging participants to understand and accept other point of views. It also facilitates an instant feedback from the receivers. As such, interpersonal communications are capable of performing three important functions.[16] They are: linking function, command and control function, and enculturation function. Let us now discuss them briefly.

- **Linking function**—This communication function aims at promoting flow of information among various parts of an organization. It also helps people connect with their environment. The basic purpose of communication here is to achieve the desired level of coherence or unity among the organization and its members.
- **Command and control function**—This communication function aims at issuing directives, identifying problems, motivating people and monitoring performance. In a nutshell, communication acts as a managerial tool to "command and control" the employees of an organization.
- **Enculturation function**—This communication function aims at creating and maintaining desirable organizational cultures. It works to get the employees influenced by those organizational cultures and also facilitates effective integration of members into an organization.

Types of Interpersonal Communication

Interpersonal communications are usually classified into two types, namely, verbal and non-verbal. In organizations, managers generally adopt both types of communication to perform their functions. In case of verbal communication, words or phrases are the important elements. Words are conveyed to the receiver through oral and written communication. In contrast, facial expressions or body languages are the important means of communication in a non-verbal form. We shall now discuss the different types of interpersonal communication in detail.

Verbal Communication

In verbal communication, the aim of managers is to communicate messages through spoken or written words to the receiver. These messages can be communicated through conversation or presentation or both. Generally, the nature and characteristics of the messages, urgency of the situation, accessibility to communication equipment and facilities and convenience of the participants influence the managers in choosing a specific type of verbal communication. In any case, managers must ensure that their messages get across to the audience effectively, whether they are in spoken or written form. We shall now discuss the kinds of verbal communication in detail.

Oral communication—Oral communication may be defined as the ability to express oneself clearly in conversations and interactions with others.[17] This is usually a two-way interactive communication process. Oral communication is the most flexible and frequently used means of communication in an organization. This communication allows people to speak with one another in person or through electronic instruments such as mobile and landline telephones. Thus, the important forms of oral communication are conversations, interviews, meetings, conferences, phone calls and voicemail messages. This communication is useful for managers to seek or provide information, suggest ideas or opinions, seek support, engage in negotiations or discussions and also know the feelings and responses of the listeners. The major merit of this communication is that it allows quick exchange of information and immediate response from listeners. It can also minimize misunderstandings as participants can quickly seek or offer clarification during conversations. However, managers must be skilled and resourceful as they have to quickly encode and decode the messages and also respond immediately in a face-to-face meeting. Further, poorly-expressed words or messages can cause misunderstanding, irritations and angry reactions from the listeners leading to communication failure. Finally, managers may find it difficult to keep a written record of their conversations with others.

Written communication—It is an impersonal form of communication adopted by managers to convey messages in writing. Reports, letters, proposals, memos, newsletters, e-mails, faxes and PowerPoint presentations are important forms of written communication. Written communications allow sufficient time to the managers to think, draft, recheck and encode the messages before sending them. Similarly, receivers can also spend required time to decode, read and understand the messages and also to decide their responses. Thus, written communication is more precise and explicit. They can be documented and kept as permanent records. They can also be a ready reference and legal evidence in the case of disputes. However, this communication can consume the precious time of the managers. It can also push up the office expenses due to increased labour, stationery and mailing cost. It may be difficult to get instant clarification and feedback for the communication. Finally, a poor-drafted written communication can affect the image and reputation of the organization.

Non-verbal Communication

Non-verbal communication involves "the transfer of meaningful information from one person to another by means other than written or spoken."[18] Though this communication does not involve any transmission of words, it can be a powerful, spontaneous and effective in conveying the message. In this, managers convey their emotions through non-verbal cues, actions, facial expressions, postures and other actions. They also understand the messages of others communicated in a non-verbal manner. Non-verbal communication can also be a two-way interactive process between the communicator and the receiver. Non-verbal communication can be effectively used to supplement, substitute or contradict verbal communication.

Managers can adopt three forms of non-verbal languages to transmit their messages. They are:

- **Sign language**—In this, gestures in the form of words and numbers are used to communicate the messages. For instance, a communicator may gesture a number (say, five) to indicate his or her time of availability to the other person.
- **Object language**—In this, material objects such as tools, watches, pens, scales and clothes are used to communicate messages. For example, people often wear black or dark dress to show their sorrow and anguish.
- **Action language**—When actions and movements like running, walking, bending down, etc. are used to send messages, they are known as action language. For instance, gestures such as running can be an instruction to the other person to arrive quickly.

Managers can use different styles of non-verbal communication to convey their messages to others clearly and correctly. They may be used effectively to indicate the mood of the communicators. For instance, feelings like joy, anger, fear, arrogance, aggression, victory and defeat can be conveyed through a person's gestural expression. We shall now look at the important kinds of non-verbal communication.

1. **Body language**—It involves gestures like hand signals and facial expression and other body movements that send meaningful messages to others. Facial expression typically includes meaningful changes in eyes, mouth, nose, etc.
2. **Proxemics**—It refers to the use of space gap between the communicator and listener. For instance, the larger the space between the communication participants, more formal is their relationship.
3. **Artefacts**—It refers to the objects in possession of the communicator that act as a non-verbal stimuli for conveying message to others. Examples of such artefacts are clothes, decorative ornamentation, perfumes, shoes, eye glasses and watches.
4. **Time**—It can be a non-verbal tool in conveying messages to communication participants. A strict adherence to time by a communicator can indicate his or her desire to be punctual. Communicators can also show respect to their audience by honouring their time expectations while speaking to them.
5. **Territoriality**—It is a non-verbal signal relating to physical space in possession of a person and used for conveying messages to others. For instance, the way furniture is arranged using the physical space available within an office can express the intentions of the communicators as related to the audience.
6. **Paralanguages**—It involves non-verbal aspects of communication that influence the meaning of the messages. It deals more with how a message is communicated and less with what was said or not said. The tone, intensity, intermittent pausing or silence can indicate the real intentions of the communicators while conveying the message.

7. **Tactile communication**—It involves communicators' reliance on "touch" as a non-verbal communication technique to convey messages. Physical touch as such can be used to convey the intentions of the communicators. These touches can be classified into functional-professional touch (medical examination by doctors), social-polite touch (handshake), friendship-warmth touch, love-intimacy touch and sexual-arousal touch.[19]

Forms of Organizational Communication

Organizational communication which allows people within an organization to communicate with one another has several aspects. Based on authority levels, it can be classified as formal and informal communication. Based on the flow patterns of communication, it can be classified into downward, upward, lateral and diagonal. Finally, based on the interpersonal dimensions, communication can become verbal and nonverbal. We shall now discuss each of these classifications here. Figure 12.2 shows the forms of organizational communication.

Authority as a Basis

On the basis of the authority of the communicator, organizational communication can be classified into formal and informal communication. Let us now discuss these two forms of communication.

Formal communication—Communication that confirms to the structure of an organization is called formal communication. Organizational structure strictly guides the flow of formal communication by clearly establishing the line of authority, reporting structure and channels of communication. Formal communication is usually the easiest and smoothest way to communicate in the organization as it is controlled and regulated by the managers. Written communication is the most common and preferred form of formal communication in organizations. Formal communication may include among others reports, memos, disciplinary actions, queries and staff meetings.

Informal communication (grapevine)—Communication occurring outside the formal channels is called informal communication or grapevine. This kind of communication is not authorized or prescribed by the structure of an organization. This communication generally arises as a response to employees' need for social interaction and relationship building within the work place. Informal communication is usually relaxed and casual, but it is a faster form of information sharing because it is not routed through official channels. However, informal information channels can help managers in fostering mutual understanding and cooperation with their subordinates. It can also help them in the early detection and rectification of tensions, frictions and conflicts in the interpersonal relations. Verbal and non-verbal forms of information sharing are the most common forms of informal communication in an organization. However, written form is normally least preferred in such communication. Formal communication may include casual discussions, gossip, gestures and online or offline chatting.

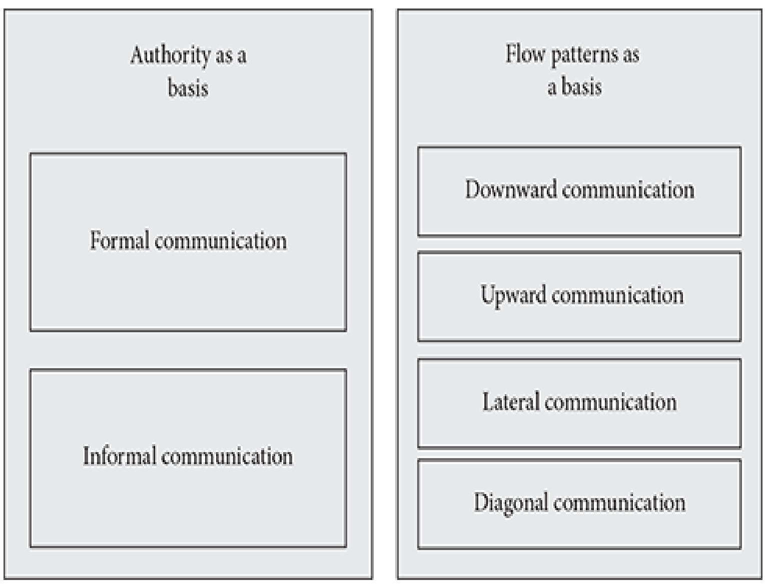

Figure 12.2
Forms of Organizational Communication

As formal and informal communication fulfil two contrasting needs of the organizational members, both forms of communication are bound to co-exist in every organization. However, managers through sincere, respectful, accurate, timely and effective formal communication can considerably reduce the role and relevance of informal communication in an organization.

Box 12.2 shows the open communication initiatives at an Indian pharmaceutical company.

Flow Patterns as a Basis

On the basis of the flow pattern (direction) of information movement, communication can be classified into four categories. They are: downward communication, upward communication, lateral communication and diagonal communication. We shall now discuss each of these four categories.

Downward communication—Communication that passes down the organizational hierarchy is known as downward communication. Downward communication may be defined[20] as “Information flowing from the top of the organizational management hierarchy and telling people in the organization what is important (mission) and what is valued (policies).” This is a traditional form of communication through which superiors pass orders, instructions, notices, directives, circulars, memos, reports, performance feedback and guidelines to their subordinates. The primary purpose of downward communication is to get the job done through subordinates by issuing them necessary directives. This form of communication can be oral, gestural and written. In downward communication, managers usually expect immediate response from the workers under their supervision. This form of communication facilitates better employee coordination and cooperation and also ensures that the overall goals and objectives are effectively accomplished.

Box 12.2
Open Communication Initiatives at Dr. Reddy’s Laboratories

Organizational policies and practices play a pivotal role in determining the communication environment of a firm. Modern day organizations encourage open communication at different levels to facilitate free and frank sharing of information among the organizational members. They do so with the aim of keeping their employees connected with the organization. These companies also realise that open communication is the best way to achieve the desired level of employee loyalty, employee attrition and organizational commitment. The communications practices at Dr. Reddy's Laboratories is a case in point.

Dr. Reddy's has a corporate communications team which ensures that the firm's employees remain connected and updated about the affairs of the organization through open communication channels. In this regard, it has an internal magazine, *Elixir*, which serves as a platform for the employees to get to know their colleagues from across the company. This magazine also helps them to be aware of the features and activities of their organization. Besides, the company also hosts an in-house circular, "Around Dr. Reddy's" and the intranet portal, mydrreddys.com, to keep the employees updated with emails on sustainability from the CEO and the corporate communications team.[34]

Upward communication—Communication that flows upwards through the organizational hierarchy is upward communication. In upward communication, information typically flows from the subordinates to superiors. This form of communication includes appeals, grievances, complaints, feedback, reports, judgements, estimations, etc. Upward communication is essential for gathering feedback from lower-level employees on how well organizational policies, plans and objectives are understood and adopted by them. It also helps the employees in sharing their work achievements, creativity, progress and suggestions with the management. This communication also helps the management in getting to know the simmering troubles and dissatisfaction among the workers. It can be used to understand their views on the job, superiors, co-workers and the workplace. Thus, upward communication helps in assessing the communication effectiveness, boosting employee morale, ensuring worker participation in decision making and also developing a sense of belonging among employees. In essence, it makes the subordinates feel valued and important in their organization.

Lateral communication—Communication between persons who occupy equal levels in the organizational structure, but belong to different functional areas is known as lateral or horizontal communication. The communication between a production manager and a marketing manager is an example of lateral communication. Lateral communication may simply be defined as "the flow of messages across functional areas at a given level of an organization:[21] In lateral communication, there is usually no hierarchical relationship (such as superior and subordinate relationship) between the sender and the receiver. Mostly, this form of communication is informal as the participants of communication have no formal power over one another. This communication is essential for promoting team work, effective information dissemination, and sharing mutual expertise and experience among managers. A study on the efficacy of lateral communication also shows that this form of communication can generate higher level of satisfaction among managers.[22]

Diagonal communication—Communication among individuals who occupy different levels in the organizational hierarchy and belong to different functional areas is called diagonal or crosswise communication. This form of communication is useful for specific projects, as members are usually drawn from different departments and hierarchal levels to work together for accomplishing some common goals. In diagonal communication, information can pass through both official and unofficial communication channels. Thus, this communication is flexible, faster and efficient for integrated decision making. However, this form of communication can cause misunderstanding between the superior and subordinates when the former is kept uninformed about the diagonal communications of the latter.[23] Communication between a marketing manager and a general manager (finance) can be classified as diagonal communication.

Managers must carefully evaluate the potential benefits and problems of each form of communication before choosing a specific form. They must also consider the nature and purpose of communication while making communication decisions. In this regard, managers must have a good understanding of all the factors influencing organizational communication for achieving required communication effectiveness.

Factors Influencing Organizational Communication

The success of any organizational communication process is influenced by a variety of factors. These factors, individually and collectively, influence the process and critically determine its outcome. We shall now briefly discuss these factors as shown in Figure 12.3.

Organizational climate—Organizational climate means a collective perception of the members about their organization. They may have a positive or negative perception of their organization and its characteristics. This perception influences their behaviour which in turn gets reflected in all their action. Based on the style of communication within each climate type, organizational climate can be classified into four categories. They are: supportive climate, innovative climate, respect for rule climate and goal-oriented information flow climate.[24]

- **Supportive climate model**—High degree of importance is attached to informal and accidental contacts and also for bottom to top (called bottom-up) communications in this model. Personal relationships are more important than task-oriented relationships in communication. Decision making is encouraged through the use of informal contacts within the organization. Formal, systematic and structured flow of information occurs only when it is absolutely necessary.
- **Innovative climate model—**Flexibility and speed are the essence of communication and decision-making process in this model. Communication in this type of climate is usually two-way, i.e. downward and upward. Since authority is significantly delegated and decentralized in this model, employees normally enjoy the freedom to choose appropriate communication channel for information circulation. For instance, vital information can be discussed verbally by the managers through informal meetings and written confirmation can be obtained through formal meetings.
- **Respect for rules model**—Formal communication, strong centralization and rigid hierarchy are the basic characteristics in this model. This model aims at exercising strict control over the individual behaviour and establishing managerial supremacy. Most contacts in this model take place within a department or office with the purpose of passing or seeking information. It relies more on one-way communication for information dissemination. In this model,

communication flows strictly in conformity with the hierarchical structures.

- **Goal-oriented information flow model**—Goal fulfilment and task-oriented leadership are the basic characteristics in this model. In contrast to respect for rule model, hierarchical structures in this model are not rigid and also not always insisted for information exchanges. Thus, all forms of communication channels are justified under this model for faster and effective goal accomplishment.

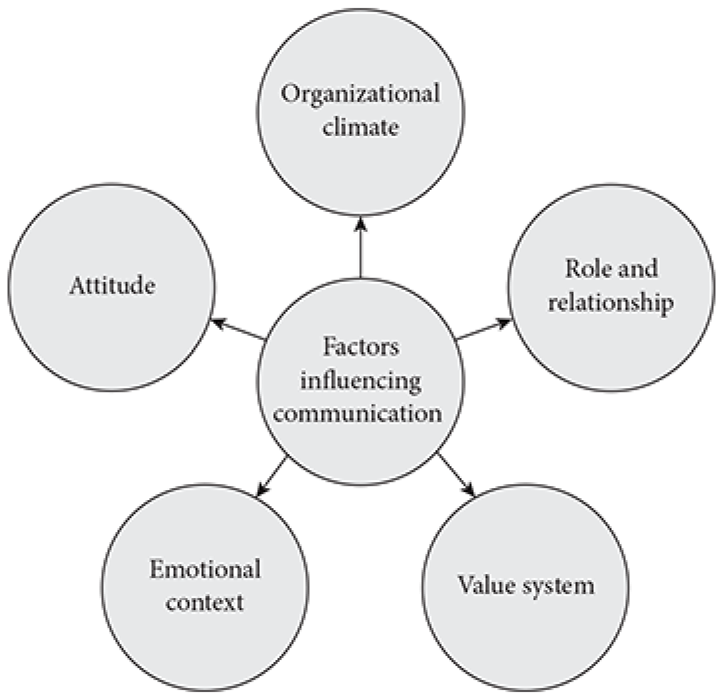

Figure 12.3
The Factors Influencing Organizational Communication

Besides organizational climate, the following factors too can have a significant influence on the communication process of an organization.

Role and relationship—The nature and kind of relationship prevailing between the sender and the receiver can also influence the organizational communication process. For instance, the status and interpersonal equations among the organizational members can get reflected in their communication styles and practices. Similarly, the role donned by the managers as superior, subordinate and peer group member while communicating with others can also determine the communication styles and approach. For instance, managers may not feel it necessary to inform their lower-level staff about certain matters, even if they are relevant for the latter. Thus, the role-defined relationship between the sender and receiver may also determine the communication decisions.

Value system—Value system refers to the ethical and ideological values held by the individuals and organizations that guide their behaviour in all situations. Value system adopted by managers in their thinking and decision-making process can also influence the communication practices. For instance, managers with liberal values may encourage informal and upward communications with subordinates.

Emotional context—Emotional environment prevailing at the time of communication can have an impact on the nature and style of communication. For instance, when the sender and receiver enjoy friendliness and warmth in their relationship, the communication exercise would be tension-free and smooth. In contrast, when hostility defines the relationship between them, communication exercise could generate anxiety and strain.

Attitude—An individual's like or dislike for something is described as attitude. Managers' attitude can also influence the way they receive, interpret and act on the messages. For instance, a manager with positive attitude can take everything positively and also radiate that positive feeling in their communication with others. This way, they make the whole communication process pleasant and productive. In contrast, managers with bad attitude could become potential fault-finders.

Besides the above, Raymond V. Lesikar[25] has also listed four factors as influencing communication practices and decisions. These factors are: (i) formal channels of communication, (ii) authority structure, (iii) job specialization and (iv) information ownership. We shall now briefly discuss them.

- **Formal channels of communication**—Communicators operating through formal channels usually have restricted participation and freedom. This is because the formal channels are regulated, controlled and sometimes stifled by the managers. A few examples of formal channels of communication are newsletters, reports, memos, etc. In the case of formal channels, managements may find it difficult to keep pace with the ever-expanding communication requirements of fast growing organizations. This difficulty in turn may impact the organizational communication effectiveness. Further, formal channels of communication can also obstruct free flow of information among members belonging to different organizational levels. For instance, workers may not have the liberty to communicate with their managers without the knowledge and concurrence of their immediate supervisor.

- **Authority structure**—Authority and status differences among the senders and the receivers can affect their communication styles and practices. The seriousness and accurateness of communication can also be undermined by such authority differences. For example, communication between a chief executive officer and his peon may be characterized by excessive politeness and formality.
- **Job specialization**—In general, communication within a homogenous group can be more effective than among heterogeneous groups. This is because members of the homogenous group with high job specialization may tend to use same symbols, technical terms and behavioural styles. They may also share same objectives, goals, activities and time horizons.
- **Information ownership**—Organizational members with unique talents, knowledge and skills are usually reluctant to share such uniqueness with others. They may refuse to let others learn certain privileged information and skills, just to maintain their supremacy in the organization. This may affect the openness in information sharing and also the communication effectiveness.

The same factors, which usually facilitate communication at one time, can cause obstructions to its free flow and efficiency at another time. Such factors are generally described as barriers to communication.

Barriers to Organizational Communication

After deciding what is to be communicated, when it is to be communicated and how it is to be communicated, managers proceed with its execution. But they may face challenges at any stage of the communication process. This is because communication is often disturbed, defaced, distracted and distorted by the presence of many potential barriers in the communication process and environment. It is therefore essential for managers to identify and remove such barriers so that their communication is exact, timely and productive. Barriers to organizational communication normally arise from three sources. They are those that: (i) originate within the sender, (ii) originate within the receiver and (iii) originate in the communication environment.[26] We shall now discuss the barriers under the broad classification of individual and organizational barriers.

Individual Barriers

Individual barriers are caused by the attitude and behavioural problems of the senders and receivers. Some individual barriers are as follows:

- **Filtering**—When communicators withhold information in part or full, it is called filtering**.** It can happen in both upward and downward communication flows. It can also be both unintentional and intentional. Unintentional filtering can occur due to faulty encoding or decoding of messages by the senders and receivers, respectively. Intentional filtering may happen when the communicators decide to withhold certain part of the information for some reasons. They may do so when they feel that complete sharing is not required or may harm their own interest. In such a situation, the senders may wilfully distort the messages sent to the receivers. For instance, managers often tend to avoid sharing negative feedback in performance evaluation reports with their subordinates fearing hostile reactions.[27] How much of information is filtered usually depends on the circumstances and the hierarchical position of the communicators and also the organizational culture. When employees are mature in their response and believe in openness, filtering is usually minimal.
- **Frames of reference**—This refers to a system of assumptions and standards that approve certain behaviour and give it meaning. Frame of reference is unique for each person and is formed based on one's education, experience, training, expectations, cultures, personality, functional domain, etc. For any communication to be successful, frames of references must mean the same thing to the sender as well as the receiver. However, frames of reference can become barriers when the receivers interpret communication based on their own frames of references and not on any common understanding. Different frames of references for senders and receivers may result in different interpretation of the same message. For instance, a talk of quality improvement in organization may mean different things to different functional managers. For the production manager, it may mean purchase of high-tech machines while the HR manager may consider it as further training of employees.
- **Emotions**—The emotional state of mind of the receivers can influence the interpretation of the messages. For instance, when communicators and receivers are going through positive emotion (like interest, enthusiasm, laughter, empathy, boredom and curiosity) they can be more open and receptive. In contrast, negative emotions (such as anger, apathy, grief, fear, hatred, shame, regret, resentment and hostility) can act as barriers in the communication process. In any case, emotional judgements can affect the rationality and objectivity of any communication interpretation process.
- **Preconceived notions**—Predetermined opinions and notions about other participants in the communication process can influence one's attitude and response to the messages. For instance, the receivers' trust, confidence and faith in the words and past actions of the senders may create a positive or negative opinion about them. A negative perception of the senders can make the receivers inattentive, nonchalant or even hostile while receiving and interpreting messages from them. Interestingly, union leaders often view their managements as exploiters out of their preconceived notions and deal accordingly.[28]
- **Lack of effective listening skills**—Listening generally involves acquiring, retaining and comprehending the information. Active listening by receivers can facilitate accurate interpretation and better retention of the messages. In contrast, inactive listening, selective

listening and reflective listening (i.e., interpretation based on how the information is conveyed or said by the sender) can distort the interpretation of communication.

- **Defensiveness**—Communicators and receivers may turn defensive when they feel threatened and insecure. Threats may arise out of their fear of loss of status, fear of rejection, desire to be perfect in the public eye and absence of self-confidence. In such situations, they may tend to avoid direct and rational responses to communication. Instead, they may intentionally pick up quarrels or indulge in the personal disparagement of others just to distract the core issue.
- **Time pressures**—Tight deadlines and time pressures often prevent managers from keeping frequent contacts with their subordinates. Time pressures may also force managers to abandon formal channels and leave out a few intended subordinates while communicating with others. In the long run, this may affect the trust, commitment and motivation of the deprived subordinates.

Organizational Barriers

Factors found in the organizational environment that reduce the effectiveness of communication are usually described as organizational barriers. These barriers are:

- **Culture**—It refers to the behaviour, values, belief and characteristics of a particular group. When organizations have different cultures, it may affect the communication effectiveness. In a multicultural environment, managers may be compelled to adopt different ways of communicating with members. This may be a cause of a burden on the managers while communicating with others. Factors such as social hierarchy, religious beliefs, etiquette, body language, personal appearance and status can become potential communication barriers in a multicultural environment. For instance, when subordinates ignore superiors while communicating with others, it is viewed seriously in countries like India. In contrast, it is not a big issue in countries like the USA and Northern Europe.
- **Language**—In organizations, language can be a barrier to communication effectiveness, if no common language is available for communication among members. In such a situation, exchange of information among them is restricted and mostly formal. At times, communication even in a common language can cause misunderstanding and communication breakdown due to differences in pronunciation of words. For instance, regional, cultural and ethnic factors exert influence on the English accent of most people in India.
- **Structure**—It refers to the way in which people and positions are interrelated within an organization for goal accomplishment. Lack of clarity in structure may act as a barrier, especially when people are not clear about their roles and responsibility. This is because they may be uncertain about what is expected of them and whom to communicate with. In organizations with a tall structure, communication is more formal and rigid and its flow is slow. It has to pass through many levels of authority in the organizational hierarchy. In the case of flat structures, members can directly, freely and frequently communicate with one another as there are fewer levels in the organizational hierarchy.
- **Status differences**—Status refers to the position of a person in an organization relative to that of others. Status symbols associated with positions such as job titles, office cabins, office furnishing, salary and reserved parking lot can be barriers to effective organizational communication. Such status symbols may interfere with the free flow of communication between a superior and

subordinates. For instance, organizational members low on status may be excessively cautious about what they communicate with their superiors. Similarly, people high on status may dislike free and frank communication with their subordinates fearing that they might undermine their authority. The higher one's status in an organization, the less likely the person will have effective communication with people a few levels below him.[29]

- **Information overload**—Communication may become a problem when managers are overloaded with more information than they can effectively handle. In recent times, managers often face information overload due to the following reasons:

  1. Advancements in information and communication technologies such as the Internet, emails, SMS and mobile phones that lead to rapid piling up of information.
  2. Increased role specialization and task complexity that necessitate gathering of more information for effective decision making.
  3. Increased disturbances in the external environment which often force managers to collect and analyse huge volumes of information to handle such uncertainty.[30]

  Managers frequently face difficulties in effectively absorbing and processing such overloaded information. In such situations, they tend to respond in any of the following ways. Omitting (some information), making errors, queuing (waiting till the information inflow ceases), filtering, approximating (general response to all categories of information), escaping and adopting multiple channels for regulating information flows.[31]
- **Noise**—It refers to both physical noise and mental noise affecting the communication effectiveness. Physical noise may arise out of a bad signal, machines or vehicles in motion and any other interruptions that may affect the listening ability of the receiver. Mental noise may arise out of the receivers' concerns for any other matters that make the communication less or unimportant.
- **Security**—Fears about safety of information and reliability of communication tools sometimes compel the communicators to reduce their dependence on a few channels. When the employees suspect that a particular channel has high potential to be monitored by others, they may tend to reduce the amount of communication transmitted through such channels. Similarly, communication leaks are also problematic because information may reach the unintended or even wrong persons. Communicators may avoid such channels that have high prospects of intrusion by others. In the case of internet-based communication, hacking by strangers has increased the fears of people communicating through internet, emails, voicemails, etc.

Strategies to Overcome Communication Barriers

Managers desiring effective communication must first recognize the barriers to the communication process. Then, they must work systematically to eliminate the barriers for effective goal accomplishment. In case complete elimination of barriers is not possible, then they must learn to cope up with them. We shall now examine the strategies that can help managers improve the effectiveness of communication.

Employee orientation initiatives—It refers to the systematic process of offering essential information to employees about the job and organization. This process enables employees to know the company policies and authority relationships. As a result, each employee would know with whom they need to communicate, what procedure and practice are to be followed in such communication and also the problems of others in the communication channel. Effective orientation can help an organization avoid many possible misunderstandings and conflicts in communication.

Effective communication plans and policies—Each organization must have a clear communication plan that should spell clearly the potential challenges in the entire communication process. It must also define the exact strategies and specific course of action for overcoming such challenges. Communication policies can include information on communication objectives, structure and feedback system, comunication policies serve as an approach towards aligning the communication process with the organization's overall strategies.

Enhancing interpersonal relationships—To make communication effective, managers must promote good interpersonal relationship among the organizational members. Cordial relationship based on mutual trust and confidence must prevail among the superiors and subordinates. In this regard, managers must encourage effective two-way communication process with emphasis on personal and regular contacts.

Efficient listening—Communication can be productive only when the managers listen attentively and understand the message clearly. There is a difference between hearing and listening in communication. Hearing is the physical act of perceiving sound by ear. Listening involves understanding the message properly and responding to it appropriately. It requires effort, concentration and patience to be a good listener. Certainly, a good listener can make others express their true feelings, emotions and desires. It is hence essential for managers to improve their listening skills through constant training and practice.

Ease of language—The choice of word and language can make a difference to communication effectiveness. Managers must choose language that best suits their audience. If necessary, they can choose different languages for different audiences just to serve the communication goals objectively. As far as possible, managers must avoid complex languages while communicating with their subordinates. Similarly, they must ensure that the technical jargons used in communication facilitate understanding and not undermine it.

Enhancing non-verbal communication skills— Communication is certainly more than mere exchange of words. Effective communication gives equal importance to both verbal and non-verbal communication. Certainly, the ability of managers to use and understand non-verbal cues such as facial expressions, gestures, eye contact, posture and tone can vastly improve communication effectiveness. Non-verbal gestures at the time of communication like how much eye contact participants make, how loud or fast they speak and how close they stand, etc., send strong indication about the seriousness of the communication. It is hence essential for managers to learn the art of non-verbal cues to improve the effectiveness of communication.

Ensuring flexibility—The term flexibility stands for the ability of managers to adapt and work efficiently in[32] different situations and to carry out a variety of tasks. By adopting behavioural flexibility, language flexibility and channel flexibility that suit the communication environment and receivers' requirements, managers can greatly improve communication effectiveness.

Emotional stability—It may mean the quality of managers to remain relaxed even under stressful conditions and to allow no adverse influence on the performance. When managers remain emotionally stable, calm and composed while communicating with others, it can help them properly receive and understand the communication. It can also help them respond in a mature way to all communication. Moreover, emotionally mature communicators can be rational in their approach and attitude towards others.

Effective feedback—Feedback makes the communication process complete and meaningful. Since communication is a continuous process, it is essential for managers to know the effectiveness of the existing communication process. When there are deficiencies in the communication process, they must make improvements in the process. In this regard, communication feedback can exactly serve this purpose. Feedback gathered through two-way communication typically helps managers in assessing the communication message clarity, effectiveness of tools and techniques and appropriateness of the channels. Feedback can be verbal and/or non-verbal, formal or informal.

Empathizing—Empathy means the ability of managers to think and understand the perspectives and feelings of others while communicating with them. Through empathizing, managers are able to place themselves in the position of other participants in the communication process. It makes managers good and patient listeners. This quality also enables managers to encode and decode the messages properly and understand the messages in the right sense. Empathy also persuades managers to avoid any intentional filtering of messages and reach a common understanding with their subordinates and others.

Since communication is the basis of almost all the activities of the organization, managers should make all possible efforts on a continuous basis to improve the speed, reliability, accuracy and quality of the communication. Moreover, effective communication is capable of improving managerial efficiency, employee motivation and customers' satisfaction.

Summary

1. Managerial communication is a process by which managers send and receive information for performing managerial functions such as planning, organizing, directing and controlling.
2. Communication is essential for efficient planning, organizing, directing and controlling of organizational resources besides keeping harmonious industrial relations within the firm.
3. Communication involves transmission of information from the sender to the receiver in an understandable manner. Communication process consists of key elements such as

encoding, medium of transmission, decoding and feedback, besides the sender and the receiver.

4. The communication process that involves face-to-face contact between two or more individuals is called interpersonal communication. Communications are capable of performing linking function, command and control function, and enculturation function.
5. Interpersonal communication can broadly be classified into verbal communication and nonverbal communication. Verbal communication includes oral and written communication. Nonverbal communication consists of sign language, object language and action language.
6. Organizational communication can be classified into formal and informal communication based on the level of authority. It can also be classified as downward communication, upward communication, lateral communication and diagonal communication-based flow patterns.
7. Organizational communication is generally influenced by factors such as organizational climate, role and relationship, value system, emotional context and attitude.
8. Barriers to organizational communication can broadly be divided into individual barriers and organizational barriers. Individual barriers include filtering, frames of reference, emotions, preconceived notions, lack of effective listening skills, defensiveness, and time pressures. Organizational barriers include culture, language, structure, status differences, information overload, noise and security.
9. Communication barriers can be overcome through strategies like employee orientation initiatives, effective communication plans and policies, enhancing interpersonal relationships, efficient listening, ease of language, enhancing non-verbal communication skills, ensuring flexibility, emotional stability, effective feedback and empathizing.

Review Questions

Short-answer questions

1. Define the terms communication and managerial communication.
2. State the meanings of (a) management communication, (b) corporate communication, (c) business communication and (d) organizational communication.
3. Define the term interpersonal communication.
4. What do you mean by non-verbal communication?
5. Differentiate between oral and written communication.
6. How can we classify communication based on authority?
7. Differentiate between formal communication and informal communication.
8. Explain the importance of communication with relevant examples.
9. Distinguish between verbal and non-verbal communication.
10. State the meaning of the term grapevine.

Essay-type questions

1. Discuss in detail the elements of the communication process.

2. Explain the various functions performed by interpersonal communication?
3. Critically evaluate the different types of interpersonal communication in detail.
4. Describe the effects of grapevine. How can we protect an organization from the effects of grapevine?
5. Describe the different forms of communication based on flow patterns.
6. Examine the strengths and weaknesses of upward and downward communication.
7. Critically examine the factors influencing organizational communication.
8. Illustrate with examples the barriers to efficient organizational communication.
9. Enumerate the strategies to be adopted to overcome organizational communication barriers.
10. Good communication is the foundation of sound management. In light of this statement, elaborate the role and relevance of managerial communication.
11. Communication aims at creating a common understanding. Comment.

Case Study

No Safety Please?

Aravind Engineering Company is one of the largest engineering and manufacturing enterprises in India. It is engaged in the production of heavy electrical equipment like heavy boilers, and power generation and transmission equipment.

This company is well known for its high quality products and it exports a significant portion of its production. The workforce strength of this company is 12,500, of which nearly 60 per cent of the employees are in the age group of 40 and above. The company has a strong union presence as nearly 80 per cent of its workforce is unionized. The HR department of the company is headed by Mr. Mithun, a post graduate in HR with a law degree. This company has an appreciable HR policy that offers the best compensation packages for the employees. It also offers adequate training and development and career opportunities to its workforce.

However, the only sore point among the otherwise excellent HR practices of this company is the slightly high level of industrial accidents occurring in the factory premises. The company has reported an average injury and illness rate of 6.2 per 100 employees, while the industry average remains at 4.8. Based on this criterion, the safety management policy of the company is deemed to be inadequate and ineffective. Obviously, the management wants the HR department to adopt rigorous safety practices to scale down the injury and illness rate to a level that is less than the industry average in a cost-effective manner.

Although the HR department is more than willing to introduce a comprehensive safety regulation by introducing new safety devices, apparatus and procedure, it faces several problems. The unionized employees are bent on opposing the new safety provisions for several reasons. In fact, the earlier safety initiatives by the HR department failed miserably due to the noncooperation of the employees and their trade unions. The unions feel that any compliance with the new safety regulations would force them to spend 10 minutes extra time. These employees are not prepared to spend any extra time for safety matters. They also feel that the handling of safety devices could slow down their productivity and performance, which, in turn, could affect their earning capacity. The traditional work culture of this company, which accords top priority to productivity over safety, is also making matters difficult for the HR department to introduce changes in the safety regulation. The safety training programmes conducted by the HR department in the past did not serve any purpose as the employees continued to exhibit an intransigent attitude towards safety regulations and flouted safety norms. Ironically, the employees are satisfied with the existing norms and apparatus and do not mind the injury rate and record of the company.

Quite understandably, the HR manager is perplexed over the strange situation. He is at a loss to know what needs to be done in the future to convince the employees, especially the union members, to accept the additional safety features. With the deadline, fixed by the management, for introducing the revised safety regulation fast approaching, the HR manager is in a real tight spot.

Questions

1. How do you assess the safety problems of Aravind Engineering?
2. Who should be held accountable for the present state of affairs?

3. Had you been the HR manager, how would you have handled the situation?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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CHAPTER 13

Leadership

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning of leadership
2. Define the characteristics of leadership
3. Distinguish between leadership and management
4. List the steps in the process of leadership
5. Enumerate the various theories of leadership
6. Describe the recent trends in leadership approaches
7. Understand the leadership succession planning

India's Inspirational Managers

Shiv Nadar is the founder and chairman of HCL, a leading global technology and IT enterprise with annual revenues of USD 6.3 billion. The HCL enterprise comprises two companies listed in India, HCL Technologies and HCL Infosystems. The HCL team comprises 92,000 professionals of diverse nationalities operating in 31 countries including India. *Time* magazine has referred to HCL as an "intellectual clean room where its employees could imagine endless possibilities." HCL, under Nadar's leadership, developed an uncanny ability to read ahead of any market inflexion point and adapt itself to derive maximum advantage. Consequently, HCL revolutionized Indian technology and product innovation with many world firsts to its credit. With a capacity to think strategically and build organizations, Nadar as a visionary, believes in value creation, entrepreneurial and win–win relationship-driven culture, strong organizational growth based on the spirit of partnership and mixing aggressiveness with innovation. In recognition of his pioneering role in business and philanthropy, Nadar was awarded the Padma Bhushan by the Government of India. Keeping the leadership qualities of Nadar in the background, we shall now discuss leadership.

Introduction

Leadership is the process of influencing people to work hard to accomplish their organizational, departmental and individual goals. Leadership is what a leader does. It also means something that a leader does to a follower. Leading as a managerial function involves building commitment and enthusiasm among people so that they work willingly and effectively towards the task accomplishment. The success of leadership lies in the ability of the managers to make things happen in the way they wanted it to happen. Leadership involves the use of influence to get tasks accomplished through the group members. Since leading is one of the core managerial functions of the management, typically all managers should be leaders. The effectiveness of leadership usually depends on the relationship among the leaders (say, managers), followers (subordinates), and the circumstances involved.[1] As leadership is a complex task, it needs to be developed through training, experience and analysis.

Power and influence are the terms closely associated with leadership. For instance, leaders need power to influence the activities of their group members. Here, power refers to the capability of people to influence or change the behaviour or action of members of group. Influence means any actions of the leaders that cause changes in the behaviour or attitude of an individual or group. Influence also means a kind of dynamic relationship prevailing among the people. Such influence must be multidimensional, non-coercive and reciprocal in nature. For instance, managers influence and also get influenced by the actions of their subordinates.

Definitions of Leadership

Influencing the activities of the group members is the primary focus of many definitions of leadership. We shall now look at a few definitions of leadership.

"Leadership is an influence relationship among leaders and followers who intend real changes and outcomes that reflect their shared purposes.[2]" —Richard L. Daft

“Leadership is the process of directing and influencing the task related activities of group members.”[3] —James Stoner

“Leader is someone who can influence others and who has managerial authority.”[4] —Stephen P. Robbins

“Leadership is an attempt to use non-coercive influence to motivate individuals to accomplish some goals.”[5] —James L. Gibson

“Leadership is the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals.”[6] —Harold Koontz and Heinz Weihrich

We may define leadership as a process of influencing people in such a way that they willingly contribute to the accomplishment of intended goals.

Characteristics of Leadership

Even though there are differences in the style and approaches of leaders due to differences in their characteristics, the needs of followers and the organizational situation, the basic characteristics of leadership are broadly similar. They are as follows:

1. **Goal-based activity**—Since leadership generally aims at influencing people towards the accomplishment of goals; it is a goal-based activity.
2. **Power-based activity**—The power of the leader’s position has a definite influence on the employees. The greater the power, the greater the leader’s influence on followers.[7]
3. **Pervasive in nature**—Leadership is needed at all levels of an organization. It cannot be confined to the top levels or to certain positions in the organization.
4. **Persuasive process**—Leadership involves the process of persuading or inducing individuals or groups to pursue organizational goals and objectives. It does not typically involve the use of non-coercive methods to influence people
5. **Interactive process**—Leadership is a dynamic and interactive process involving three dimensions, namely, the leader, the follower and the situation. Each dimension influences and gets influenced by the other dimensions.

Leadership *vs.* Management

Leadership is viewed as something different from management by many management experts.[8] According to them, management works in the system whereas leadership works on the system.[9] Generally, leadership can exist even for completely unorganized groups but managers need roles specified by organizational structure. In case of organizations, the typical role of managers in an organization is to promote stability, order and problem-solving ability all within the existing system and structure. In contrast, the leaders' role is to encourage vision, change, improvements and creativity. However, leadership cannot be a substitute for management; rather, it is only a supplement. Managers' job predominantly involves the maintenance of status quo in the organization. But leadership tends to question the status quo, so that the outdated and unproductive practices are questioned and replaced with challenging goals and tasks. In simple terms, "a manager takes care of where you are, a leader takes you to a new place."[10] Thus, good managers are essential for meeting the existing goals and objectives effectively while good leaders are important for keeping the organization moving forward.

To be effective, leaders of organizations should be proactive, creative, flexible, passionate, visionary, inspiring, courageous, innovative and experimental in nature. They should initiate changes and depend on personal power to lead others. As against this, successful managers usually need to be authoritative, analytical, rational, consulting, structured, persistence, tough-minded and stabilizing in nature. They normally adopt a problem-solving approach and use positional powers to manage others.

To be successful, managers must possess both managerial and leadership skills. Understandably, people who develop skills in leadership role and managerial functions will: (i) have long-term vision and remain futuristic (ii) look outwards towards the larger organization (iii) influence others beyond groups (iv) emphasize vision, values and motivation (v) be politically astute and (vi) think in terms of change and renewal.[11]

Process of Leadership

[12]

Leadership is viewed as a process by Jay Conger. According to him, this process typically consists of four steps. They are: (i) developing a strategic vision (ii) communicating the vision to others (iii) building trust among members and (iv) showing the ways and means to achieve the vision through role-modelling, empowerment and unconventional tactics. We shall now discuss them briefly.

1. **Developing a strategic vision**—This stage in the leadership process involves the creation of vision for the organization. Through the formulation of vision, a leader decides what an organization wants to become. A leader's vision helps in the establishment of a strong organizational identity. A well-formulated vision enables the organization to plan for its future and decide the long-term direction. It also indicates the company's desire to achieve a specific business position.
2. **Communicating the vision to others**—Once the vision is properly formulated, it becomes necessary for leaders to communicate it to the members of the organization. Since the vision is prepared in the present based on the past for the future, it typically acts as a bridge between the present and the future for an organization.
3. **Building trust among members**—No vision can be established by coercion or diktat. Leaders need to use their persuasion skills and techniques to secure the cooperation and commitment of members to vision. Leaders can gain the trust and confidence of the members through their technical expertise, risk-taking attitude, self-sacrifice and unconventional behaviour. Generally, members adopt a vision and work towards it, if they believe that such vision serves the organizational as well as their own individual interests.
4. **Showing the ways and means to achieve the vision**—Through role-modelling, empowerment and unconventional tactics, leaders can inspire members to work towards the fulfilment of the organizational vision. Leaders should establish motives and incentives for the members to share the vision and work in a unified manner towards the organizational success. A shared vision is capable of animating, inspiring and transforming purpose into action. Box 13.1 shows the leadership development initiatives of a private-sector organization.

Leadership Theories

Many theoretical approaches are available to the study of leadership. As seen in Figure 13.1, some of the important theoretical approaches are: (i) trait approach (ii) behavioural approach, (iii) contingency approach and (iv) other approaches. We shall now discuss these approaches in detail.

Trait Approach

Traits are the distinguishing personal characteristics of a leader. They may also be defined as the recurring regularities or trends in a person's behaviour. The trait approach to leadership was one of the first systematic efforts to study leadership. This approach is also called genetic approach as it assumes that leaders are born and not made.[13] This approach is based on the assumption that great leaders possess certain innate qualities and characteristics that differentiate them from their followers. Trait approach is also called as great person theory. This theory also maintains that people behave in a particular way because of the strengths of the traits they possess. This theory believes leaders and non-leaders could be differentiated by a universal set of traits and characteristics. During the early 20th century, several researches focused on identifying those specific traits and characteristics.

Box 13.1
Leadership Development Initiatives at Wipro

Successful organizations develop high potential leaders to remain competitive in the market and grow over a long term. The success of any organization in developing leadership at different levels depends on its ability to make the leaders understand that their value lies not only in managing teams and organizational activities but also in inspiring others, developing purposeful goals, implementing strategic visions and fostering cultures of excellence. The leadership initiatives at Wipro are worth mentioning here.

The spirit of Wipro, which is the core of the organization, guides the actions of its leaders and their teams. The spirit of Wipro manifests itself in three important forms. They are: (i) intensity to win, (ii) act with sensitivity and (iii) unyielding integrity. The objectives of many leadership programmes at Wipro are to gear up the managers to take up the challenge of successfully heading large and strong teams. In this regard, Wipro has developed a unique competency framework called WIBGYOR, which stands for Wipro's Career Bands Gives You Opportunities and Responsibilities. WIBGYOR defines the behavioural competencies that are to be demonstrated by organizational members in general and the leaders in particular. These competencies are usually defined role-wise and the members are evaluated on these competencies at the time of performance appraisal to stimulate role-based growth.[59]

After analysing the research studies conducted between 1904 and 1947, Ralph Stogdill[14] identified the presence of eight traits in successful leaders. They are: (i) intelligence, (ii) persistence, (iii) initiative, (iv) self-confidence, (v) responsibility, (vi) insight, (vii) sociability and (viii) alertness. However, Stogdill maintained that leaders are not qualitatively different from their followers and a few characteristics such as intelligence, initiative, stress tolerance, etc. are modestly related to success. Generally, in these studies, people with exceptional follower performance, high status positions within an organization or salary levels that are higher than their peers were viewed as successful leaders.[15]

Though initial researches validated the perspectives of this approach, subsequent studies carried out in the mid-20th century questioned the fundamental premises that a specific set of traits defined leadership.[16] Consequently, attempts were made to include the impact of situations and followers on leadership. The scope of trait approach was thus widened to include the interactions between leaders and the context, besides analysing the critical traits of leaders.

Behavioural Approach

While trait approach focuses on identifying the critical leadership traits, behavioural approach concentrates on identifying behaviours that differentiate effective leaders from non-effective leaders. The primary aim of the behavioural approach is to decide what behaviours are typically associated with successful leaders. The basic premises of this approach are: (i) the behaviour of effective leaders are different from that of less effective leaders and (ii) the behaviour of effective leaders will be the same or similar across all situations.[17]

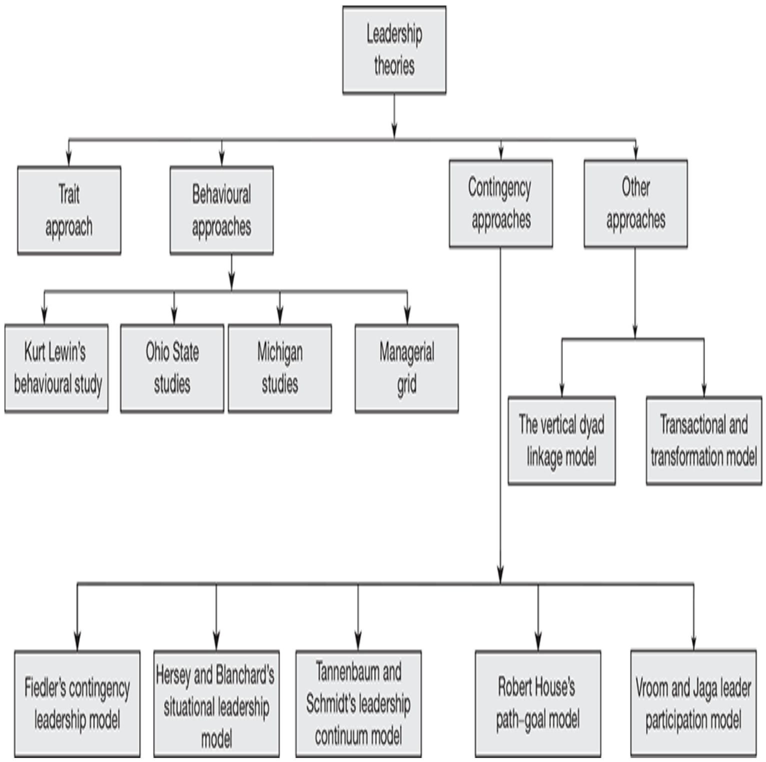

Figure 13.1
Leadership Theories

While determining the behaviour of leaders, researchers generally focused on managerial aspects such as how the leaders communicate with their followers, how they do their tasks, how they delegate their tasks, and what do they do to motivate their subordinates. Behavioural approach to the study of leadership is vastly enriched by leader-behaviour studies such as the Kurt Lewin's behavioural study, Ohio State studies, the Michigan studies and the managerial grid. We shall now discuss each one of them.

Kurt Lewin's behavioural study—One of the earliest studies to identify the effect of leadership behaviour was carried out by a group of researchers led by Kurt Lewin in the 1930s. As a part of this study, different groups of children, all aged about 10 years, were exposed to three different kinds of leadership styles normally adopted by adults. These leadership styles were:

1. **Authoritarian or autocratic leadership style**—In this case, leaders remain aloof and issue orders to the group members without consultation.

2. **Democratic leadership style**—In this case, leaders constantly guide the activities of the group members and encourage their active participation.
3. **Laissez-faire style**—This is also called "leave employee alone" style. In this case, leaders just provide knowledge to the group members. But they do not guide or direct the activities of the group members. Members are simply allowed to make and execute decisions without any follow-up by the leaders. They also avoid any participation in the activities of the group members.

The results of the study enabled researchers to claim that the leadership style has a direct impact on the group productivity and performance, group members' behaviour and interpersonal relationship. For instance, group members under democratic leadership style have high work morale, friendly interpersonal relationship, high level of work quality and originality and less dependence on leaders. But their productivity will not be as high as that of the group under autocratic leadership style.

Under autocratic leadership style, group members exhibit aggressive and apathetic behaviour. They are defiant and blame each other for any failures. They also continuously seek the attention of their leader. Finally, under the *laissez-faire* leadership style, group members experience low level of satisfaction and low work morale and cooperation. Productivity and quality are lowest under the *laissez-faire* leadership style. In the final analysis, democratic leadership style emerged as the most successful leadership style in the study.[18]

The Ohio State studies—In the late 1940s, researchers at Ohio State University studied the subordinates' perception of their leaders' behaviour. In this regard, they developed and administered a specific questionnaire to people in both military and industrial settings to learn about their perceptions. Initially, the Ohio Studies identified more than a thousand dimensions or forms of leadership behaviour. But then they subsequently narrowed it to just two dimensions. As shown in Figure 13.2, these two dimensions are: (a) initiating structure behaviour and (b) consideration behaviour. Let's discuss them briefly.

1. **Initiating structure behaviour**—This behaviour dimension places importance on tasks and goals. In this form of behaviour, leaders clearly define their own role as well as their group members' role in accomplishing the goals. Well-defined roles enable the

subordinates to understand what is expected of them. Leaders also normally establish clear channels of communication and decide the specific methods for attaining group goals.[19]

2. **Consideration behaviour**—In this kind, leaders' work relationship with their subordinates is characterized by mutual trust, two-way communication and respect for group members. The leaders of this method recognize that individuals have needs and require relationships. This was also called relationship behaviour. Leaders of this behaviour category generally remained friendly, approachable and also helped the group members who experienced personal problems.

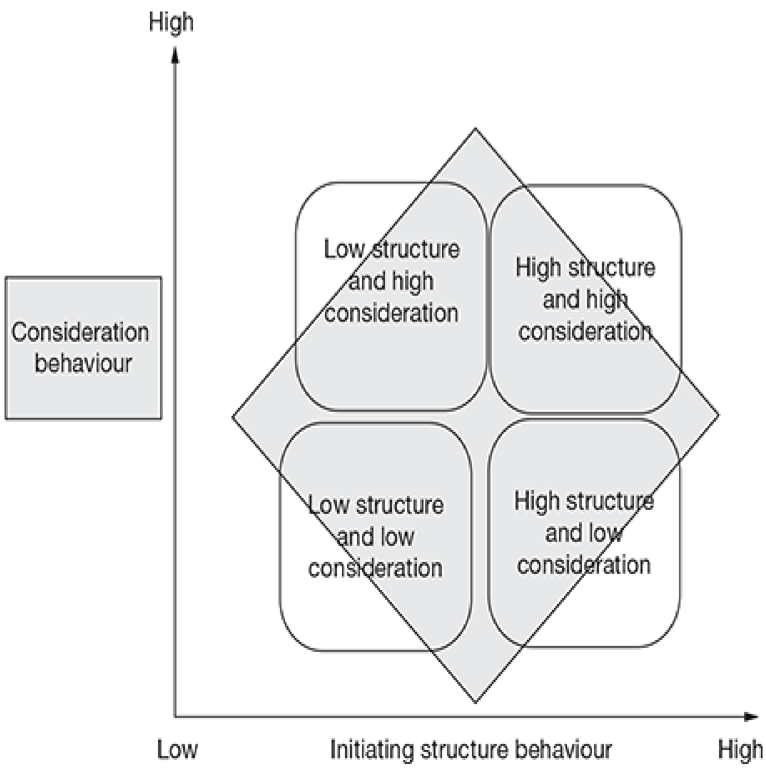

Figure 13.2
Ohio State Studies

The research results of the Ohio studies showed that the rates of employee turnover were lowest and employee satisfaction was highest under leaders who were high in consideration. In contrast, leaders who were high in initiating structure and low in consideration faced problems of high employee turnover and low employee satisfaction. According to this study, leaders who ranked high on both dimensions tend to influence the workforce to a higher level of satisfaction and performance. However, the weakness of this study is that it did not consider the influence of situational factors on leaders' behaviour.

The University of Michigan studies—Almost during the same period as the Ohio studies were carried out, researchers at the University of Michigan were carrying out similar studies. These studies were carried out under the direction of Renis Likert.[20] The primary purpose of these studies is to identify efficient leadership styles. They focused on two dimensions of leadership, i.e. production-centred leadership and employee-centred leadership. We shall now discuss them briefly.

- **Production-centred leaders**—These leaders focus fundamentally on the technical aspects of the job, setting rigid work standards, organizing tasks down to the last details, explaining work procedure and task accomplishment. They also firmly believe in the close supervision of their employees. Obviously, they view their employees as means and tools to accomplish the tasks. These leaders are also primarily concerned about the efficient completion of the job assignment.
- **Employee-centred leaders**—These leaders place more emphasis on developing interpersonal relations and cohesive work groups. They tend to take personal care and interest in the needs of the employees. They also encourage employees' participation in goal-setting and decision-making process. Further, they recognize the individual differences among employees with regard to performance and behaviour. The primary concern of these leaders is on the well-being of the employees and their job satisfaction.

Researchers involved in the Michigan studies found that the employee-centred leaders were able to achieve higher level of productivity than the production-centred leaders. The study also showed that the most effective leaders were actually maintaining a supportive relationship with their employees. They were inclined more towards group decision making than individual decision making. They were also in favour of allowing their employees to set their performance goals to improve their commitment and motivation.[21]

Michigan and Ohio studies have a few similarities. For instance, both studies insisted that effective leader behaviour is primarily situational, i.e. leaders' behaviour varied with the situation. Similarly, they emphasized on performance (for instance, production performance was considered in Ohio studies and goal performance in Michigan studies).

The managerial grid—The managerial grid was developed by Robert Blake and Jane Mouton.[22] During the 1960s, they re-examined the two dimensions of leaderships identified by the Ohio and Michigan studies and came up with a two almost similar leadership behaviour dimensions. These two behaviour dimensions are: (i) concern for production and (ii) concern for people. However, the managerial grid is based on the assertion that one best leadership style exists. Managerial grid helps in evaluating the existing leadership styles of the managers and trains them to adopt ideal leadership behaviour.

The two dimensions of leadership behaviour namely, “concern for production” and “concern for people,” are typically measured through a questionnaire on a scale from 1 to 9. The scores for these two dimensions are plotted on a grid as shown in Figure 13.3. The horizontal axis in this grid represents concern for production whereas the vertical axis represents concern for people. Even though 81 combinations of concern for production and concern for people are possible, the managerial grid identifies five leadership styles only. These styles are: (i) impoverished at 1.1, (ii) authority compliance at 9.1, (iii) middle of the road at 5.5, (iv) country club at 1.9 and (v) team leader at 9.9. Let us now look at these leadership styles.

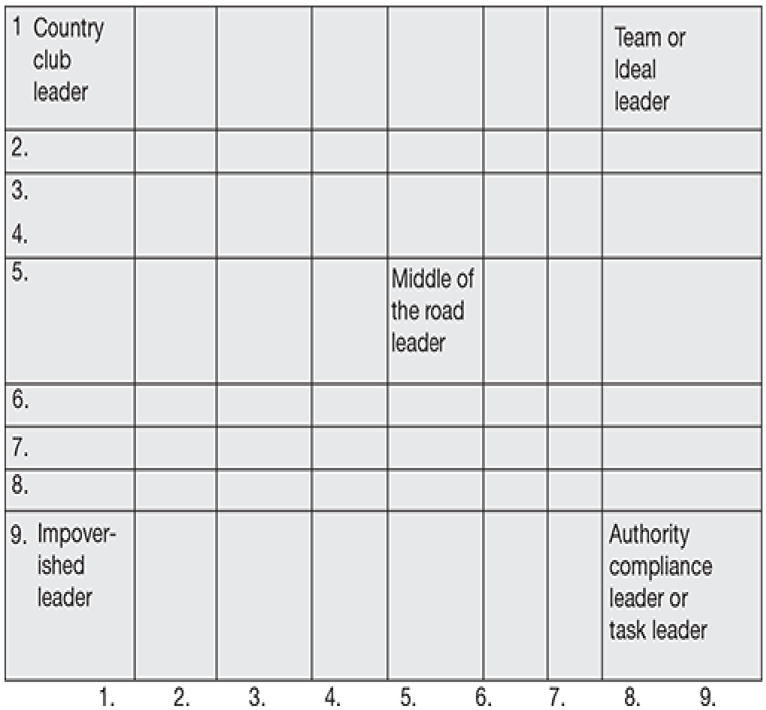

Figure 13.3
The Managerial Grid

1. **Impoverished leaders—**These leaders put in minimum required efforts to retain their position or job in the organization. They are usually concerned more about their own well-being and survival in the organization than about the employees under their supervision. Further, these leaders normally have low concern for production as well as for people.
2. **Authority compliance leaders—**The main focus of this category of leaders is to get work done through their employees. They usually tend to treat their people like machines. These leaders often exhibit autocratic behaviour while dealing with their employees. They normally have high concern for production and low concern for people. They care less for the problems of their people such as stress or conflict.
3. **Middle of the road leaders**—These leaders tend to balance their concern for production and concern for people. They try to get work done by the employees even while maintaining their motivation and morale at satisfactory levels. The situation factors normally decide the attitude and style of these leaders. These leaders believe that adequate organizational performance is possible through fine balancing acts. However, such balancing acts are rather difficult on a long-term basis. Moreover, it is tough to maintain an equal concern for production and for people at the same time.
4. **Country club leaders**—These leaders are most concerned with their employees' well-being. They make sure that the needs and aspirations of the employees are adequately met and a friendly and affable environment exists within the organization. The fundamental belief of these leaders is that by satisfying the relationship needs of the employees, a positive work tempo and pleasant work ambiance can be established. However, the major weakness of this approach is that it fails to focus on the production concerns of the organization. Understandably, this approach can also lessen the overall capacity of

the employees to accomplish or exceed the organizational goals and plans.[28]

5. **Team leaders**—These leaders are viewed as ideal leaders by Blake and Mouton. According to them, interdependence through a “common stake” in organizational goals and plans can enhance the mutual trust, confidence and respect in relationship. The primary focus of this approach is on developing a sense of purpose and sense of accomplishment in both concern for production and concern for people. Box 13.2 shows the application of managerial grid in a private-sector business organization.

The managerial grid is viewed as an effective tool to identify and develop leadership qualities among managers. Managerial grid, especially the team leader model, has enabled many organizations to determine their multiphase training as well as development programmes required to achieve specific leadership behaviour. Since there is always scope for improvement in a leader’s behaviour and approach, it is difficult to attain ideal manager’s position and retain it.

Box 13.2
Nine Box Matrix for Leadership Differentiation at HUL

Organizations adopt leadership differentiation processes to classify leaders based on their performance. In this regard, they typically use techniques like performance reviews, leadership style assessments, assessments centres, cross-project assignments, etc. to clearly differentiate individual leaders with potential to meet the future leadership requirements of organizations. For instance, the multinational giant, Siemens, USA, adopted a global performance management process to achieve more accurate differentiation among employees with the aim of identifying future leaders for organizations. The leadership differentiation process of Hindustan Unilever Limited (HUL) is a case in point.

HUL makes use of the Nine Box matrix, namely, the managerial grid technique for identifying the future leaders of the company through leadership differentiation process. In HUL, every person is plotted in appropriate groups. For instance, all general managers are plotted together. Likewise, the executives belonging to similar categories of jobs are plotted together in the nine box matrixes. The purpose behind such exercises is to identify the higher performers who have the potential to go to the next level. In HUL, an employee should have completed a minimum of three years in the company before being included in the nine box matrix for leadership differentiation. In HUL, the Nine Box matrix not only measures the performance of managers but also their efficiency as leaders.[60]

Contingency or Situational Approaches

After extensive research on the trait and behavioural aspects of leadership, several researchers have come to the view that no one trait or style (behaviour) is common or effective to all situations. They also believe that the leadership style or behaviour differs from one situation to another. They have attempted to prove that the leadership effectiveness cannot be attributed to the leader's personality alone. Consequently, they began to identify the factors in each situation that can influence the effectiveness of a specific leadership style.[24] They also attempted to develop suitable leadership styles for specific situations. However, some researchers feel that it is easier for leaders to change the situation than to change their style.[25] Research on leadership styles based on situations is categorized in contingency approach to leadership. The important contingency leadership theories are: (i) Fiedler's contingency leadership model, (ii) Hersey and Blanchard's situational leadership model, (iii) Tannenbaum and Schmidt's leadership continuum model, (iv) Robert House's path–goal model and (v) Vroom and Jaga leader participation model. We shall now discuss each of these models.

Fiedler's contingency leadership model— According to Fred E. Fiedler who developed the contingency leadership model, the leadership style of a person reflects his or her personality. Such leadership style also remains basically constant. This model states that effective group performance depends on correctly matching the leader's style and quantum of influence in

[26]

the situation.[26] Simply put, effectiveness of a group depends on the suitable match between the leader's style and the demands of the situation. In this regard, Fiedler has advocated a two-step process. They are: (i) listing of the leadership styles that would be most effective for different situation and also the possible types of situations and (ii) identifying suitable combinations of leadership styles and situations.

The primary focus of this model is on determining whether a leadership style is task-oriented or relationship-oriented and also whether the situation suits the leadership style. To determine the nature of leadership style (whether it is task-oriented or relationship-oriented), Fiedler developed The Least-Preferred Co-worker (LPC) questionnaire and administered it to a group of employees. Least-preferred co-worker is a co-employee with whom a person (say, a colleague or superior) could work least well. The responses to LPC questionnaire were measured and averaged. Leaders who described their least-preferred co-worker in relatively mild and favourable manner would have high LPC scoring. This would indicate that these leaders have human relations orientation and adopt relationship-oriented style.

In contrast, leaders who described their least-preferred co-worker in an unfavourable manner would have low scores. This would indicate that these leaders adopt task-oriented leadership style. Through his model, Fiedler advocates that matching leader style to the situation can yield big dividends for the organization in the form of profit and efficiency. However, this model was criticized on the ground that it is tough for the leaders to change their style when the situational characteristics change.[27]

Hersey and Blanchard's situational leadership model—The focus of this leadership model is on understanding the characteristics of the followers while deciding the appropriate leadership behaviour. In simple words, leaders adjust their style based on follower readiness to do the task in a given situation. Here, follower readiness refers to the ability, willingness or confidence levels of the followers to perform the specified tasks. According to this situational model, successful leadership practices are the outcome of interactions among three important dimensions. They are: (i) the quantum of guidance and direction provided by a leader, (ii) the amount of social and emotional leadership provided by a leader and (iii) task readiness of the followers. Based on the extent of guidance and direction required by the followers, a leader may respond to the situation on hand in any one of the following ways.[28]

1. **Delegating**—This is a low task and low relationship style. The leader allows the group members to take responsibility for any task decisions. This style can be suitable when the followers have the capability, willingness, commitment and confidence to do the tasks entrusted. In this style, the task responsibility and control is with the leader, especially regarding when and how the leader should be involved. This style can work well when the followers' readiness is high.
2. **Participating**—This is a low task and high relationship style. Here, the leader focuses primarily on frank and open discussions with the employees and collective decisions on task planning and accomplishment. This style is preferred when the leaders have the ability, but not the willingness and confidence to successfully complete the tasks. This style is best when the followers' readiness is low to moderate.
3. **Selling**—This is a high task and high relationship style. This style is tried out when the followers lack adequate capability, but keep high commitment and willingness to do the task entrusted. Here, the leader just explains the task direction in an encouraging and persuasive manner. This style is most suitable when the followers' readiness is moderate to high.
4. **Telling or coaching**—This is a high task and low relationship style. Here, the leader defines the followers' role, provides clear direction and also training, if necessary. They also extend personal, social and emotional support to them. Leaders tend to adopt this style when their followers are short on ability, willingness and confidence. This style can be appropriate when followers' readiness is low.

According to this model, leaders should change their leadership styles as their followers change over time. This model also believes that when appropriate styles are adopted by the leaders, especially when the followers are in low-readiness situation, then these followers will grow in maturity and readiness over a period of time. However, adequate research has not been carried out on this model even though it remains intuitively appealing.[29]

Tannenbaum and Schmidt's leadership continuum model—This model covers a range of leadership behaviours. According to this model, leadership behaviour or style could exist on a continuum (range) from boss-centred to subordinate-centred leadership. At one end of the continuum, a leader may take complete control of the situation by unilaterally making decisions and then just informing the subordinates (boss-centred leadership). At the other end of the continuum, the leader and subordinates collectively and collaboratively make decisions in a participative manner after clearly understanding the organizational constraints. Within these two extremes of behaviours, a leader may also exercise a variety of leadership pattern to include or exclude subordinates in the decision-making process.

The variety of leadership behaviour are: (i) leader sells the decision, (ii) leader presents the ideas and calls for questions, (iii) leader makes tentative or provisional decision and invites discussion for improvement or modification and (iv) leader just explains the situation and the problems. He/She then seeks suggestions and arrives at decisions (v) leader defines the parameters and limits and lets the subordinates make all the decisions and (vi) leader just defines the limits and permits the subordinates make the decision after identifying the problems and developing the options.[30]

A leader’s selection of a specific leadership pattern in a continuum is typically based on the nature and intensity of three forces. These forces are:

1. **Leader forces**—Typically, these forces emerge as a result of a leader’s own personality and preferred behavioural style. A leader’s experience, expertise, values, knowledge, feeling of security and the degree of trust in the subordinates’ ability, influence their selection of specific leadership styles. Personality and behaviour are the major forces that drive the leaders to become autocratic or participative in their leadership style.
2. **Subordinate forces**—These forces emerge as a consequence of the personality, behaviour and expectations of the subordinates towards their leader. These forces typically influence the followers’ preferred style for the leader. These forces influence the decisions of the leaders regarding the leadership styles. For instance, a highly participative leadership style can be tried by a leader when his followers are able, willing and motivated.
3. **Situational forces**—These forces arise out of environmental variables like the organization, task, work group, etc. Specifically, the size, structure and climate of the organization, technology and goals, influence the selection of a specific leadership style by a leader. Further, the attitude of the superiors can also influence leadership

style decisions of a leader. For instance, a low-level manager may prefer to follow the leadership style of their high-level managers.[31]

This model is viewed as another form of contingency approach to leadership as it also insists that the success of leadership depends on the match between the leader's preferred style, subordinates' expectation and behaviour and situational necessities. In any case, this model helps people to explore a range of possible leadership styles available.[32] But this model is criticized for not considering the social aspects, while deciding the leadership styles. It has also failed to unambiguously attribute different behavioural effects to different leadership styles.[33]

Robert House's path–goal model—The primary aim of the path–goal model is to find the right fit between leadership and situation. Through this theory, Robert House tries to explain how a leader's behaviour influences the satisfaction and performance of the subordinates. This theory suggests that leaders are effective only when they enable their subordinates to accomplish their tasks. In this regard, a leader is supposed to adopt a suitable leadership behaviour, irrespective of their preferred traits and behaviour. The path–goal model recommends four distinct types of leader behaviours and suggests that the leaders can move back and forth from one type to another depending upon the subordinates and the environment. Research on the path–goal model suggests that a leader can try all these four styles under different circumstances.[34] Let us now briefly discuss each of these four leadership behaviour.

1. **Directive leadership**—In this style, leaders let the subordinates know what is expected of them. They also tend to provide precise guidance about what is to be done and how it should be done. They schedule the work to be done. They establish and communicate clear and definite performance standards to the subordinates. Then, they coordinate the activities of the subordinates. Importantly, they explain the role of the leaders to the group members in an unambiguous manner. When task objectives and assignments are unclear, then directive leadership can help in clarifying such task objectives and the likely rewards.[35]
2. **Supportive leadership**—In this style, leaders adopt friendly and caring approach to the needs, status and well-being of the subordinates. These leaders make every effort to make the work environment pleasant and enjoyable. They also treat their subordinates as equals and treat them with due dignity. Supportive leadership can boost the confidence of subordinates by emphasizing individual abilities and providing customized assistance, especially when the subordinate's confidence and self-belief is low.

3. **Participative leadership**—In this style, subordinates are consulted by the leaders on work-related matters. Subordinates' opinion, views, suggestions and ideas are given due consideration by the leaders when they make decisions. Participative leadership will be effective to clarify individual needs and identify suitable rewards, especially when performance incentives are inadequate.
4. **Achievement-oriented leadership**—In this style, leaders adopt a task-oriented approach by setting challenging goals for their subordinates. These leaders normally display high confidence in the skill and ability of their subordinates in performing challenging tasks. They seek their subordinates to achieve excellence in performance. When the job does not have adequate task challenges, then achievement-oriented leadership can help in setting challenging goals and improving the performance aspiration of subordinates.

According to this model, it is possible for the leaders to alter their style or behaviour to suit the requirements of the situation. Generally, two situational factors influence the relationship between a leader behaviour and subordinate outcome. They are shown in Figure 13.4.

1. **Subordinates' characteristics**—A leader's behaviour will be acceptable to the subordinates only to the extent that such behaviour acts as an immediate or future source of satisfaction to them. Subordinates' characteristics, such as their ability, locus of control (degree to which a subordinate views the environment as systematically responding to his behaviour),[36] needs and motives can influence a leader's behaviour.
2. **Environmental forces**—A leader's behaviour can be motivational to the subordinates only to the extent that such behaviour makes their satisfaction dependent on their effective performance and other aspects of the work environment, including guidance, support and reward. Environment forces include the subordinates' tasks, the primary work group and the formal authority system.[37]

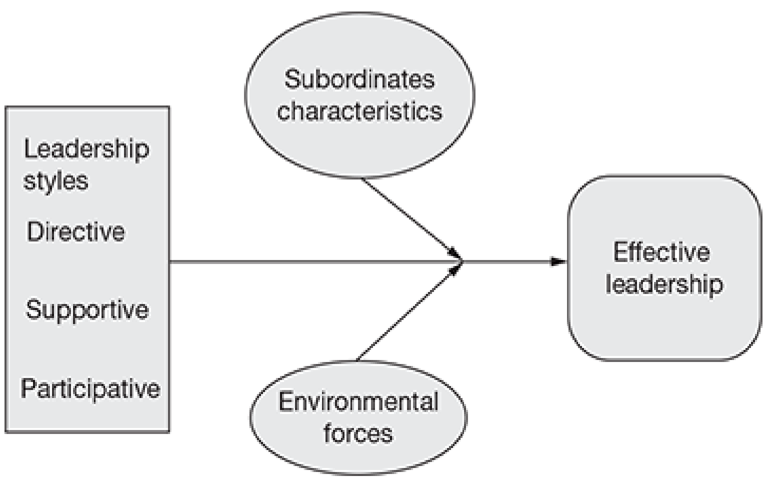

Figure 13.4
Path–Goal Model

Though the path–goal model is seen as improvement over the trait and behaviour models, the validity of the[38] path–goal theory has not yet been determined.[38] Occasional attempts to substantiate this model have achieved only mixed results.[39]

Vroom and Jaga leader participation model— According to this model, leaders are most effective only when the leadership style used by them best suits the problem being faced. This theory states that the degree of subordinates' involvement in the decision-making process is a major variable in leader behaviour.[40] This theory suggests that the leader's choice for making decisions typically falls under three categories. They are:

1. **Authority decision—**In this case, the decisions are made by the leaders and then communicated to the subordinates. Obviously the views and opinions of the subordinates or others may be obtained by the leaders without disclosing the problems.
2. **Consultative decision—**In this case, the leaders obtain the views, advice and opinion of the subordinates while making decisions. Understandably, the decisions are made by the leaders and not by the subordinates. Consultative decision can be further classified into individual consultation and group consultation. In individual consultation, the leader discusses the problems with the subordinates individually while making decisions. In group consultation, the leader holds a group meeting for ascertaining the views of the members and making decisions.
3. **Group decision—**In this case, the decisions are made by the subordinates themselves. The leaders may choose to adopt any one of the two styles. For instance, the leader may act as a facilitator by conducting the meeting, defining the problems and mentioning the limits within which the decisions are to be made. Leaders will not force their views or opinions on their subordinates and will encourage the subordinates to actively participate in the meeting and contribute to the decision-making process. In another form, leaders just let the group do everything, including problem diagnosis, alternatives (choice) development and decision making but within the limits prescribed by the leaders. Here, the leaders confine themselves to clarifying the subordinates' queries and encouraging their participation.

A leader's selection of a specific decision style is generally influenced by three vital factors. They are:

1. **Decision quality**—This depends on the quality of source information or input, strength of the decision-making process and expertise of the decision maker.
2. **Decision acceptance**—This refers to the importance of subordinates' acceptance (of decisions) to the eventual success in the implementation of the decision.
3. **Decision time**—This refers to the sufficiency of time available for making and implementing decisions.

The factors governing the decision style of the leaders can be classified into seven categories as follows: (i) decision significance, (ii) importance of commitment,

(iii) leader expertise, (iv) likelihood of commitment, (v) group support for objectives, (vi) group expertise and (vii) team competence.[41] Since each decision-making style has its advantages and disadvantages, it is imperative for the leaders to shift from one style to another depending upon the developments in the environment. This model enables managers to decide when they should make decisions and when they should let their subordinates make decisions.

Other Approaches to Leadership

In addition to the major approaches to leadership discussed, a few other approaches have also been developed. They are: (i) vertical dyad linkage model and (ii) transactional and transformation model. We shall now discuss these models briefly.

The vertical dyad linkage model—Dansereau and others developed this model based on the assumption that the leaders behave differently with different subordinates.[42] The term "vertical dyad" in the model refers to the individual relationship that exists between the leader and the subordinate. In other words, this theory states that the leaders tend to develop some special kind of relationship with a few members. Understandably, leaders develop an "in-group" and "out-group" for themselves. The in-group members are more trusted and preferentially treated by the leaders. Since these members are viewed as best performers by the leaders, they get special assignments and privileges and enjoy better access to information. These members usually enjoy high exchange relationship with their leaders. In contrast, members of out-group are generally ignored and get fewer benefits. These members normally have low exchange relationship with their leaders.[43]

This theory has been found to be more useful in describing the relationship between the leaders and their subordinates.

Transactional and transformation model—This leadership model was first developed by James M. Burns and refined by Bernard Bass.[44] According to this model, two different types of management activities are performed by leaders and each activity demands different types of skills on the part of the leaders. These two management activities are: (i) transactional leadership and (ii) transformational leadership. Let us now discuss them briefly.

1. **Transactional leadership**—This kind of leadership is viewed as a traditional form of leadership. In this leadership kind, the leader–subordinate exchange primarily focuses on the accomplishment of pre-determined performance goals. Transactional leadership involves routing activities like allocation of tasks, making routine decisions, supervising subordinates' performance and so on. In this kind of leadership, the exchange between the leader and the subordinates has four dimensions. They are: (i) contingent rewards including wage contracts, incentive for good performance and other recognitions, (ii) management by exception (active)—looking for performance deviations and rules violations and initiating corrective actions, (iii) management by exception (passive)—interventions only in the case of apparent performance failures and (iv) *laissez-faire*, avoiding decision and abdicating responsibility.[45]
2. **Transformational leadership**—This kind of leadership requires the leaders to possess skills necessary for recognizing the need for change and introducing suitable course of action to achieve it. This leadership expects the leaders to influence the needs, values and beliefs of the subordinates in the desired manner. This model suggests three important ways to bring about changes in the values and beliefs of the subordinates. They are: (i) enhancing the subordinates' awareness on the significance of their task and its accomplishment, (ii) letting subordinates be aware of the importance of achieving personal growth and development and (iii) motivating subordinates to give more importance to the organizational interest over that of their own personal interest.

The leader–subordinate exchange in transformational leadership has four dimensions. They are: (i) idealized influence—leaders behaving in a way that gets them admiration, respect and trust of the followers, (ii) inspirational motivation—leader's behaviour builds enthusiasm and commitment among the subordinates, (iii) intellectual stimulation—leader's behaviour challenges the subordinates to be creative and innovative and (iv) individualized consideration—leader's behaviour enables the subordinates to reach their full potential.

According to Bass, transactional leaders are typically a hindrance to changes while transformational leaders are capable of achieving superior performance even in uncertain circumstances.[46]

Leadership and Organizational Life Cycle

In its evolution process, each organization goes through different stages and forms before it becomes matured. Each growth phase of an organization may require the managers to adopt different leadership styles. According to Clark, an organization typically goes through five phases and each phase requires the adoption of different leadership styles by the managers.[47]

In the first phase, for instance, the leaders are required to be highly individualistic, and innovative with high entrepreneurial spirit. This is primarily because this phase is often viewed as creativity phase as organizations mostly achieve growth through creativity.

In the second phase called the direction phase, leaders are expected to provide strong direction to the organizational members. Authority at this stage is largely centralized and members look to their leaders for direction and frequent guidance. At this stage, effective direction contributes to further growth of the organization.

In the third phase called delegation phase, leaders need to optimally delegate power to their subordinates so that the latter have adequate autonomy to perform their job efficiently. When the organization becomes large in size, delegation helps in faster decision making and better accountability at different levels. At this phase, effective delegation is largely responsible for the growth of the organization

In the fourth phase, organizations should seek to grow further through proper coordination. Understandably, this phase can be called coordination phase and the role of leaders is that of a “watch dog” as they assume the role of protector or guardian.

In the fifth phase, the participative approach of leadership facilitates the growth of the organization. In other words, organizations seek to grow through elaboration at this stage. Leaders should enhance their interpersonal skills and adopt team-oriented approach to achieve further organizational growth. Leaders should have to be more imaginative and ingenious in their approach.

In their further research on leadership style, Clarke and Bratt have identified four different leadership roles to be performed by managers during different phases of the organizational life cycle. These roles are: (i) the champion, who is the defender of a new business as it is fraught with numerous dangers, (ii) the tank commander, who carries the business forward to the next stages, (iii) the housekeeper, who keeps the business stable and balanced after it reaches the maturity stage and (iv) the lemon squeezer, who extracts the maximum out of the business after it shows sign of decline.

Recent Trends in Leadership Approaches

Even though many forms of leaderships are in existence, a few forms have recently gained importance due to their utility value to the managers in the present context. These leadership forms are: (i) ethical leadership, (ii) strategic leadership and (iii) cross-cultural leadership. We shall now discuss each of them.

Ethical Leadership

Ethics refers to the ethical principles that determine the behaviour of an individual or a group. The term ethics is an abstract concept and can be measured only through principles and practices adopted by the leaders in dealing with their subordinates. Of late, there is growing interest among management on ethical leadership. Organizations have begun to introduce high ethical standards for their managers to prevent any possible ethical misconduct and the consequent loss of organizational goodwill. Managers normally identify certain behaviour and motives like honesty, trustworthy, fairness and altruistic as representing ethical leadership. Value-based management, which means behaviour based on ethical principles and values, is a good formula for the long-term health and success of every organization. In fact, the practising of ethical values in management is an essential prerequisite for both individual success and organizational efficiency. However, when individuals practise ethical values within an organization, it does not mean that the entire organization is ethical. Only when the entire organization practices fairness and justice in a systematic way can it be called an ethical organization.

The foundation of ethical organizations is mutual trust and respect.

A violation of ethical principles in decision making by an organization or its leaders can have a deep impact on its members' life and character. A written statement of the policies and principles that guide the behaviour of all the persons is called the code of ethics. But the fact is that no amount of written rules can achieve ethical behaviour among the employees unless the organizational leaders conduct themselves in a fair, moral and legal manner. Ethical leadership is essential for creating an ethical workforce. The employees of an organization view their leaders as role models to determine their own behaviour. Indeed, those organizations where employees reported fair treatment by management showed proportionately less unethical behaviour.

Today, the survival and success of organizations in a globalized market depend more on the ethical standards adopted by them. In ethical organizations, people can trust one another to back up their words with action. These organizations often have contented employees and are usually identified by their high productivity and effectiveness compared to that of their competitors. We shall discuss the different types of ethics.

Types of ethics—Ethics can broadly be classified into three types, namely, descriptive ethics, normative ethics and interpersonal ethics.

- **Descriptive ethics—**It is mostly concerned with the justice and fairness of the process. It involves an empirical inquiry into the actual rules or standards of a particular group. It can also mean the understanding of the ethical reasoning process.[48] For instance, a study on the ethical standards of business leaders in India can be an example of descriptive ethics.
- **Normative ethics—**It is primarily concerned with the fairness of the end result of any decision-making process. It is concerned largely with the possibility of justification. It shows whether something is good or bad, right or wrong. Normative ethics cares about what one really ought to do and it is determined by reasoning and moral argument.[49]
- **Interpersonal ethics—**It is mainly concerned with the fairness of interpersonal relationship between the leaders and their followers. It refers to the style of the managers in carrying out their day-to-day interactions with their subordinates. The manager may treat the employees either with honour and dignity or with disdain and disrespect.

Approaches to ethical issues in organizations— Though many leaders are interested in acting in an ethical manner, they often face dilemma in determining what constitutes ethical actions. For instance, organizational politics is viewed as an unethical act by many organizations, yet it is widespread in our country. Indeed, the difficulty surrounding ethics makes it hard to distinguish right from wrong.[50] However, leaders can ensure that their policy satisfies as many persons as possible in the organization. Similarly, they should provide for the recognition of the rights of an individual while determining the ethical proportion of organizational polices. Velasquez et al.[51] have provided a proposition for determining whether a particular policy or action is ethical or not.

- **Utilitarian approach—**In this approach, the managerial policy is based on the philosophy of utmost good for the greatest number of people. It evaluates the ethical quality of policies and practices in terms of their effects on the general well-being. For instance, decisions like lay-offs in a difficult situation for the organization are justified on the grounds that they benefit a majority of the employees.
- **Approach based on rights—**This approach is based on the principle that an organization should respect an individual's dignity and rights. Each employee is entitled to be treated with due respect and be provided with safe working conditions, a reasonable and equitable pay system, and relevant and unbiased performance evaluation. An individual's privacy and integrity should also be respected by the organization.
- **Approach based on justice—**The focus of this approach is on equal treatment, adoption of due procedure and consistency in application of policies and rules. The focal point of this approach is on fairness in ensuring a balance between the benefits and the burdens of the job, such as compensation and performance, compensation and job attendance, etc.

International business ethics—As a result of globalization, there has been a tremendous increase in the number of companies conducting business across national boundaries. Indeed, intense competition forces companies of different natures and sizes to enter global markets, in some cases with absolutely no knowledge on the diversity of business standards and practices in the host country (country of operation). Business leaders now have to learn how to adapt to diverse national cultures and socio–economic conditions, and new and diverse ways of communicating with and managing people.[52]

Guidelines for international business organizations on ethical issues—When the existing ethical standards of multinational companies are inadequate, these companies can adopt any one of the following guidelines to develop ethical standards for evaluating the decisions of their organizational members operating at global levels.

- **Human rights obligation—**This guideline is based on the fundamental human rights. The proponent of this guideline, Thomas Donaldson,[53] advocates that organizations and their leaders have an obligation to recognize and respect certain rights as fundamental international rights. These rights are: the right to freedom of physical movement; the right to ownership of property; the right to freedom from torture; the right to a fair trial; the right to non-discriminatory treatment; the right to physical security; the right to freedom of speech and association; the right to minimal participation; the right to political participation; and the right to subsistence. Donaldson declares that each company is morally bound to discharge these fundamental rights, and any persistent failure to observe them would deprive the company of its moral right to exist.
- **Welfare obligation—**Based on moral considerations, Richard T. De George[54] proposes a few guidelines for international organizations and their leaders with the twin aims of preventing damage and providing benefits to the host countries. These guidelines are:
    - Multinational companies should desist from committing any intentional direct harm to the host countries.
    - They should ensure that they create more good than harm for the host country as a result of their operations.
    - They are morally bound to contribute to the growth and progress of the host country by their activities.
    - They must see to it that their activities are, as far as possible, in compliance with the local practices and culture. They should also strive hard to respect the human rights of their employees in the host countries.
    - They have a moral and legal responsibility to pay a fair share of taxes to the governments of these nations.
    - They should work together with the local government in developing and maintaining institutions with a just and fair background.
- **Justice obligation—**It deals with the fairness of the activities of a multinational company in the host country. Leaders of multinationals have an obligation to help in the development of the host country, in addition to their business activity. Their organizations should be not only efficient but also responsible business houses. Foreign companies often attempt to avoid the payment of proper taxes by resorting to transfer pricing, which refers to the values assigned to raw materials and unfinished products that one subsidiary of the multinational company sells to another subsidiary in another country. Since pricing is done as an internal mechanism independent of market forces, companies tend to manipulate it to show profits in counties where taxes are low. Such manipulative practices must be avoided.

Strategic Leadership

Leadership literature earlier focused on the leadership roles performed by the supervisory- and middle-level managers. Of late, the focus has shifted to the strategic leadership roles performed by the top managerial executives and teams. Strategic leadership can be defined as "the complexities of both the organization and its environment and to lead change in the organization in order to achieve and maintain superior alignment between the organization and its environment."[55] Since strategic leadership clearly relates to the role of top management, managers who are a part of this leadership actually influence the overall effectiveness of large organizations.

To effectively discharge the strategic leadership functions, managers need to have a clear, complete and critical understanding of their organization. They should be familiar with the vision, mission, ethos, history, strengths and weaknesses of their organization. Strategic leaders must also be aware of the organization's internal and external environment. They should also know the nature and kind of alignment existing between the organization and its environment. While making strategic decisions as a part of the strategic leadership, managers can adhere to certain guidelines like: (i) careful consideration of the long-term and short-term goals, objectives and priorities of the organization, (ii) evaluating the existing strengths and weaknesses, (iii) keeping the core competencies in focus, (iv) assessing the need for major changes in the strategies, (v) identifying the prospective strategies, (vi) assessing the possible outcomes of a strategy and (vii) choosing the appropriate strategy after wider consultation with other strategies.

Cross-cultural Leadership

Cultural values tend to influence and shape the perceptions, cognitions and preferences of organizational members and teams.[56] Consequently, there will be wide differences in the behavioural norms of the members across cultures. It thus becomes essential for managers to adopt cross-cultural leadership (or shared leadership) and such leadership is widely prevalent in organizations with diverse cultural settings. The advancements in communication technology and transportation have vastly increased the cross-cultural interactions within organizations. The need for the development of cross-cultural leadership has arisen due to rapid social transformation, an enhanced access to education and increased labour mobility and the changing workforce profile of country. For instance, the proportion of women, religious minorities, physically challenged and socially backward people in the workforce has increased dramatically. This is a direct challenge for managers as they have to deal with culturally and racially diverse work groups. Thus, there is growing need among organizations to develop cross-cultural leadership among their managers. Many firms are now compelled to initiate new gender-specific and target-based policies to serve the interests of different sections of the employees.

The primary challenge of cultural leadership for managers is to motivate the organizational members of culturally different groups towards the accomplishment of valued goals by understanding and appealing to the shared knowledge of the culturally diverse groups.[57]

Leadership Succession Planning

A change in executive leadership at some point of time is unavoidable for an organization. It is also a critical and tough exercise for an organization to find the right replacement for those in the top levels of the management at the right time. An effective succession plan can facilitate the organization in being prepared for planned or unplanned absence of its top managers and also in guaranteeing stability in its business operations. The purpose of a management or leadership succession plan is to ensure that, to the extent possible, the firm has a sufficient number of competent managers to meet the future business needs. Succession planning is actually a process through which an organization plans for and appoints top-level executives. It usually requires suitable managers to fill the vacancies caused by retirement, promotion, death, resignation and transfer of the existing managers. By implementing a succession management programme that is transparent and equitable, an organization forms an environment for the employees to expand their skills in anticipation of future possibilities. This also enables a workplace to position itself to adequately face any situation that might arise in the organization on account of management changes.

Further, succession planning is also capable of reducing performance variations in key roles, reducing attrition among top performers, encouraging high internal recruitment and enhancing the motivation levels of managers. The concept of succession planning has gathered momentum in Indian companies. Many top companies have chalked out systematic plans for identifying and grooming talents, which would eventually take over the top positions in the company. For instance, a few years back, L&T, one of India's leading engineering companies, declared the top 10 per cent of its executives as stars and developed fast-track career paths for them. In course of time, these executives replaced the senior managers when they retired.[58]

Need for Succession Planning

In a globalized economy, the scarcity of people qualified for important leadership positions has become one of the foremost challenges facing the management today. Companies are having an acute shortage of talent, especially at the top levels of the management. This is because the demand for able and experienced managers often exceeds their supply. There are several factors that have contributed to this situation. They are explained in the following paragraphs.

Growth of organizations—A typically growing organization will require additional leaders to fulfil its ambitious organizational goals and objectives. The expansion schemes of the companies and the tight labour market conditions may combine to create an acute shortfall in executive talent. This would in turn influence organizations to undertake succession programmes more seriously and on a priority basis.

Early retirements—Even though employees can remain in their jobs for a longer duration, especially in private firms, top managers are of late quitting the firms early to take up lucrative consultancy services. As a recent phenomenon, even those employees who are in their early- or mid-50s quit their job to take up career in other fields where they can make more money. These developments have further enhanced the importance of succession planning for an organization.

Coping with multiple competency requirements—Present-day organizations with a complex network and global presence are seeking to have executives with multiple competencies for the higher levels of management. For instance, companies are now looking for managers who can excel at collaboration and partnering, understand and handle vast ambiguities, and deal with global business issues. They should also be familiar with matters like business start-ups, mergers and acquisitions, management of change, the ability to manage new technology, and foreign assignments. Of course, these managers should possess these skills in addition to the conventional skills and knowledge, such as leadership skills, communication, behavioural skills and motivational skills. But, it is difficult for organizations to get a sufficient number of good managers with these qualities. Hence, organizations depend critically on succession planning to develop managers with complex skills and abilities.

Poaching—To deal with leadership scarcity**,** some organizations try to attract the managers of their rivals with attractive job offers. When the efforts of these organizations succeed, the organization losing the employee might face a tight situation, especially in the short run. To avoid such a predicament, it is necessary for organizations to develop and implement management succession plans.

Requisites for successful succession management—Organizations should understand clearly that succession planning cannot function in isolation and, in order to achieve success, it should be properly integrated with the corporate goals and plans. Similarly, it should get the full-fledged cooperation of all the stakeholders, namely, the trainer, the trainee manager, the management and the HR people. The following are the basic requirements in succession planning for developing leadership that delivers business results and assures stability:

- The succession planning programme should have the complete support and patronage of the top management.
- The management should forecast with maximum possible precision the skill requirements for the immediate and distant future.
- The organization should revise the list of jobs critical to it periodically and bring them under the succession planning programme.
- The organization should systematically identify the employees with potential managerial competence for developing their skills and knowledge.
- There should be a proper alignment of the HR strategy and the succession plans. While determining HR activities such as training and development, and performance evaluation, the succession plan requirements should also be considered.
- The knowledge, skills and abilities of the prospective employees must be developed on a sustained basis.
- A proper mechanism should be put in place to provide constant feedback to the potential successors on their performance and progress. There must also be a system for evaluating the efficiency of the trainers in succession planning.
- The organization should adopt a strategic and holistic approach towards succession planning and leadership development.

Box 13.3 shows the leadership succession initiatives at a large and reputed private industrial unit.

Impediments to Effective Succession Management

Organizations often fail to identify the factors undermining the success of their succession plans, and these factors eventually affect the efficiency of these programmes. It is hence essential for organizations to concentrate on the identification and elimination of factors that impede the effectiveness of succession planning. We shall now discuss the major impediments to succession planning process.

Box 13.3
Leadership Succession Initiatives at Reliance Industries Limited

Many organizations view leadership succession initiatives as an important strategy to sustain competitive advantages. Developing individuals for future leadership assignments is an ongoing and multifaceted activity in many organizations. Depending upon an organization’s specific needs, the management may develop its own customized succession management techniques and processes.

Similarly, a management may employ different leadership development strategies for the different kinds of leadership roles in the company. RALP, the leadership development strategy of Reliance Group, is an interesting example.

Reliance Accelerated Leadership Programme (RALP) is an initiative of Reliance Industries Limited to create a strong leadership cadre that will supplement the pipeline for senior leadership roles likely to emerge in Reliance within the next 10 years. The purpose of RALP is to accelerate the development of young talent so that they become fit to take up leadership positions by their late 30s or early 40s, as the case may be. Participants of this programme will acquire different functional skills different. Since the primary focus of RALP is to get the requisite number of people ready for future leadership positions at the higher level, it focuses on training the participants across different functional and cross-functional domains with an accent on blended learning.[61]

Lack of criteria for the identification of the successor—Many organizations care little about developing clear and objective criteria for selecting the potential successor for filling the future positions. Many senior managers identify their successor through chance observation of people and their skills. An inaccurate identification can keep out the talented and deserving but less visible employees from the succession programme.

Presence of traditional replacement systems—In many organizations, the replacement planning process targets specific persons instead of identifying specific positions for succession planning. People-oriented succession planning often ends up with the identification of a few subordinates by the senior managers for inclusion in the succession planning. Instead, the organization should first identify the critical positions to be included in the succession planning. Then, it should develop a pool of high-potential candidates for inclusion in the planning process. Thus, a position-based replacement system is required for the success of the succession programme.

Improper diagnosis of development requirements—Often, organizations make wrong assessment of the skills requirements of potential successors. When the skills requirements are misjudged, it often leads to inaccurate selection of training and development techniques and performance evaluation methods. It is, therefore, essential for an organization to evolve scientific methods to identify the skills and knowledge requirements for its future positions and also the skill gaps of the trainee managers.

Inadequate focus on interpersonal skill requirements—On many occasions, organizations emphasize more on developing the technical skills and competencies of the future leaders and simply overlook their interpersonal and team- building skills. Consequently, the succession programmes pay no attention to leadership, motivational, communication and socialization skills of the participants. An organization should, therefore, develop a comprehensive succession programme by including both hard and soft skills components in the development programmes for its prospective future leaders.

Too little importance to lateral mobility—Quite often, organizations consider vertical mobility of the immediate subordinates to higher positions as the only option available in succession management. They simply ignore the prospects of lateral mobility, which considers other employees also for higher positions as an alternative in succession planning. Any narrow approach towards succession management would reduce the scope of succession planning in the organization. Hence, managements should include lateral mobility also as a part of succession management strategy.

Lack of sufficient and timely sharing of feedback —The absence of availability of feedback on the current performance and future assignments may drive a potential successor out of the organization. When prospective employees remain ignorant of what their management plans for their future, they may tend to quit the organization in search of better prospects elsewhere. Hence, it becomes important for the organization to ensure that the information on career plans concerning the employees is shared with them without any delay.

Lack of follow-up action—In many organizations, succession plans often remain in the plan stage and in paper form. These organizations lack the sustained enthusiasm and motivation required to follow-up the plans with necessary actions. In some organizations, the management simply fails to take succession management to its logical end, which is posting the identified and trained successors to the vacant positions. This occurs when the management changes its preference for the identified position and dumps the person groomed for that position through the succession planning process.

Absence of managerial initiative and support— The critical prerequisite for the success of any succession management programme is the active support and constant encouragement from the top management. Many organizations do not provide the importance that it deserves in the strategic planning. This is because the management is concerned more with its immediate future and short-term goals. It is important for managements to realize the benefits of succession management and they should strive to support this concept on a sustained basis.

Insecurity of the boss—Managers often feel threatened when succession issues are discussed with them. They view the move as the beginning of the end of their career with the organization. In such a situation, an insecure boss may display disinterest and even apathy in sharing his/her skills and knowledge with the potential successor. The top management should enlighten the managers about the purpose and intentions of succession planning and dispel any apprehensions that they may have about the whole programme.

Summary

1. Leadership is the process of influencing people in such a way that they willingly contribute to the accomplishment of intended goals.

2. There are four steps in the process of leadership. viz., (i) developing a strategic vision, (ii) communicating the vision to others, (iii) building trust among members and (iv) showing the ways and means to achieve the vision through role-modelling.
3. The important leadership approaches are: (i) trait approach, (ii) behavioural approach, (iii) contingency approach and (iv) other approaches.
4. The trait approach is based on the assumption that great leaders possess certain innate qualities and characteristics that differentiate them from their followers.
5. The behavioural approach concentrates on identifying behaviours that differentiate effective leaders from non-effective leaders. Behavioural approach was enriched by leader-behaviour studies such as the Kurt Lewin's behavioural study, Ohio State studies, the Michigan studies and the managerial grid.
6. The important contingency leadership theories are: (i) Fiedler's contingency leadership model,(ii) Hersey and Blanchard's situational leadership model, (iii) Tannenbaum and Schmidt's leadership continuum model and (iv) Robert House's path–goal model.
7. Other approaches to leadership include: (i) the vertical dyad linkage model and (ii) the transactional and transformation model.
8. Ethics in ethical leadership refers to the ethical principles that determine the behaviour of an individual or a group. A written statement of the policies and principles that guides the behaviour of all the persons is called the code of ethics.
9. Strategic leadership can be defined as the complexities of both the organization and its environment. Such leadership leads the organization to change in order to achieve and maintain superior alignment between the organization and its environment.
10. In cross-cultural leadership, cultural values tend to influence and shape the perceptions, cognitions and preferences of the organizational members and teams.
11. A leadership succession plan aims at ensuring that the firm has sufficient number of competent managers to meet the future business needs.

Review Questions

Short-answer questions

1. Define the term leadership.
2. What are the characteristics of leadership?
3. Distinguish between leadership and management.
4. Write a note on the trait approach to leadership.
5. State the essence of the behavioural approach to leadership.
6. What do you mean by the vertical dyad linkage model?
7. Give a brief account of (a) transactional leadership and (b) transformational leadership.
8. Explain the meaning and types of ethics briefly.
9. What are the approaches to ethical issues in organizations?
10. Define the term strategic leadership.
11. What do you mean by ethical leadership?

Essay-type questions

1. Enumerate the steps in the process of leadership.
2. Critically evaluate the trait approach with an example.
3. Discuss briefly the various behavioural approaches to leadership.
4. Describe the contributions of the Ohio State studies and the University of Michigan studies to the development of the behavioural approach to leadership.
5. Enunciate the different leadership styles discussed by Kurt Lewin’s behavioural study.
6. Illustrate the managerial grid developed by Robert Blake with an example.
7. Explain any two models that support the contingency approach to leadership.
8. Examine Hersey and Blanchard’s situational leadership model.
9. Describe Tannenbaum and Schmidt’s leadership continuum model with a relevant example.
10. Describe Robert House’s path–goal model with an appropriate example.
11. Discuss the role and relevance of Vroom and Jaga leader participation model.
12. Leaders are interested in acting in an ethical manner; they often face a dilemma in determining what constitutes ethical action. In the light of this statement, discuss the importance of ethical leadership.
13. An effective succession plan can help an organization to prepare for planned or unplanned absences of its top managers. Discuss.

Case Study

Leadership Dilemma at Hiralal Textiles

Hiralal Textiles is a customer-oriented business concern engaged in the production of superior quality yarn, fabric, apparel and home textiles. Hiralal Textiles has a decent market share, huge production capability and a team of skilled workers and staff numbering approximately 2800. Sometime back, Ramesh Chaturvathi was the production manager of Hiralal Textiles. Chaturvathi was almost micromanaging everything in his department and practised soft authoritarian style to get the job done in a particular way within a very quick timeframe. Chaturvathi would tell the subordinates what needs to be done and by when. In most occasions, the work was completed by the subordinates without too much fuss. When there was slack in the performance of any subordinates, he would not hesitate to take over the given task and entrust it to better performers.

Due to his micromanaging style, Chaturvathi began to spend too much of time in the office and with his subordinates. He began to feel suffocated in his job and started complaining to the higher authorities about workload pressure. Suddenly, he put in his papers citing health reasons. The management was simply stunned by the developments as there were no major complaints concerning performance, productivity or quality in the production department except for a few but serious issues in interpersonal relationships.

After careful consideration of the situation in the production department, the top management hired the services of Rajesh Vaidya through a well-known HR consultancy firm. The young and energetic Vaidya, who successfully tried participative leadership in all his earlier assignments, strongly believed in inspiring, guiding and influencing the subordinates to perform their tasks well. After learning about the experiences of his predecessor in the department, he was all the more determined to introduce the "sell the idea" approach in place of the "tell the idea" approach practised earlier in the department. Vaidya began to involve his team whenever he made important task-related decisions. He would also ensure that they understood why such decisions were necessary. His intention was to allow the team to take responsibility for achieving the desired result and get new ideas from them.

Though Vaidya's leadership approach produced a positive outcome in terms of increased team motivation, it began to compromise on decision quality and timing. Vaidya's approach was also not contributing in any significant way to performance and productivity improvement or idea generation. He began to believe that his subordinates were nonchalant about the decisions or the discussions. Losing trust that his subordinates were as capable as he was in decision making, he was seriously thinking of adopting a leadership style that would suit the calibre and characteristics of his subordinates or quitting.

Questions

1. How do you assess the situation prevailing in the production department of Hiralal Textiles?
2. How should Chaturvathi have handled his problem in the company without quitting his job?
3. According to you, what went wrong in the leadership style adopted by Rajesh Vaidya?

4. If you were to the production manager, what will your leadership approach for the production department of Hiralal Textiles be and why?

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CHAPTER 14

Motivation and Morale

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning and characteristics of motivation
2. Explain the importance of motivation
3. Enumerate the forms of motivation
4. Define the approaches to motivation
5. List the factors influencing the motivational process
6. Learn the steps of the motivational process
7. Discuss the different content theories of motivation
8. Explain the various process theories of motivation
9. Understand McGregor's theory X and theory Y
10. Present an overview of Ouchi's theory Z
11. Understand the meaning and process of employee engagement

India's Inspirational Managers

Kiran Mazumdar-Shaw is the chairman and managing director of Biocon, India's largest biotech company. She is a first generation entrepreneur with over 36 years experience in biotechnology and industrial enzymes. She started Biocon in 1978. Within a year of its inception, Biocon became the first Indian company to manufacture and export enzymes to the USA and Europe. She spearheaded its growth from an industrial enzymes manufacturing company to a fully-integrated bio-pharmaceutical company through her single-minded determination, hard work, self-belief and self-motivation. She firmly believes that to create a great organization, the top leadership has to create a sense of ownership and excitement for its own people. According to her, the best way to motivate people is to make them feel that their organization is investing in their future. She also firmly believes in treating employees with respect and also respecting, recognizing and rewarding every individual's contribution to the organizational growth. She has been included in *Time* magazine's list of 100 most influential people and *Forbes* magazine's list of

100 most powerful women of 2012. Kiran's beliefs and values set the tone for discussion on motivation and morale in this chapter.

Introduction

Motivation is simply the process of encouraging employees to voluntarily give their best in the job so that the performance goals are achieved effectively. It is a drive that moves people to do what they do. Motivation involves identifying and influencing people's behaviour in a specific direction. It actually works with the individuals' desire, energy and determination and stimulates them to realize the predetermined goals. For instance, an employee in his job may decide to work as hard as possible or work as little as possible, depending upon his level of motivation. Generally, people's desire for money, success, job satisfaction, recognition and team work can be used sensibly for motivating them. Motivating employees is important as lack of employee motivation can affect the organization's initiatives and individuals' performance.

Motivation is a challenging task for the managers as it arises from within persons and normally differs for each person.[1] Since every person has different sets of needs and goals, it is essential to identify those needs and also the appropriate motivational techniques that fulfil them. Employees' needs in organizations can broadly be classified as physiological needs, safety needs, belongingness needs, esteem needs and self-actualization needs.

Motivation, which is derived from the word "motive" (meaning needs or drives within individual), can be classified into intrinsic motivation and extrinsic motivation. Intrinsic motivation usually comes from inside an individual without any external rewards. Satisfaction in the successful completion of a work is an example of intrinsic motivation. In contrast, extrinsic motivation usually comes from outside an individual. In this case, rewards are independent of the job. They provide satisfaction that the job itself may not provide. Increased pay and promotion are example of extrinsic motivation.

Definitions of Motivation

Fulfilment of goals through willing and sustained cooperation from the employees is the essence of many definitions of motivation. We shall now look at a few definitions.

"Motivation is the willingness to exert high levels of effort to reach organizational goals, conditioned by the effort's ability to satisfy some individual need."—Stephen P. Robbins[2]

"Motivation is a decision-making process, through which the individual chooses the desired outcomes and sets in motion the behaviour appropriate to acquiring them."—Huczynsk and Buchanan[3]

"Motivation refers to the forces either within or external to a person that arouse enthusiasm and persistence to pursue a certain course of action."—Richard L. Daft[1]

"Motivation refers to forces that energize, direct and sustain a person's efforts toward attaining a goal."—Bateman and Snell[4]

We may define motivation as forces that originate internally or externally of individuals and drive them to voluntarily choose a course of action that produces a desired outcome.

Characteristics of Motivation

The essential characteristics of motivation are:

1. Motivation is a psychological drive that forces individuals to act in a specific manner.
2. Motivation is a complex and goal-directed behaviour. It aims at fulfilling the organizational and individual goals in the most desired manner.
3. Presence of unfulfilled needs and wants is an important prerequisite for motivation.
4. Motivation is a continuous process. This is because the fulfilment of one set of needs usually gives rise to another set of needs in a person.
5. Motivation must always be comprehensive. As such, partial motivation is not achievable since needs are interrelated.
6. Motivation is a situation-based and highly dynamic phenomenon. This is because the needs of individuals keep changing depending upon the trends and developments in the

environment. The changed needs and drive may call for changes in the motivational techniques and tools.
7. Motivation can be both internal and external to the individuals depending upon their needs, wants and the overall environment.
8. Motivation is influenced by a variety of forces and pressures arising from an individual's socio–cultural environment like family, social group, culture and value system.
9. Motivation must always have a positive effect on employee behaviour and performance.

Importance of Motivation

Keeping a motivated and vibrant workforce is essential for organizations to succeed in today's intensely competitive business environment. However, it is the most difficult task for managers because what motivates the employees changes constantly. Therefore the managers need to continuously motivate their people to get the best out of them and to retain them in the firm for a long duration. We shall now see the importance of motivation in detail.

1. Motivation is an important tool to get people work hard in their job and for effective fulfilment of organizational goals and plans. Organizations can achieve high level of performance, productivity and quality through their motivated workforce. Certainly, workplace motivation infuses positive energy into the work environment.[5]
2. It enables organizations to achieve the willing cooperation and voluntary support of the employees for its work methods, policies, programmes and practices. Employees may be more receptive to changes initiated by their management due to the goodwill and mutual trust generated by motivation.
3. Motivation can keep employee absenteeism at lower levels in organizations by encouraging the employees to come to work regularly. When employees are dissatisfied they will suffer from low motivation and try to abstain from their duty. They may also quit their job if they are not properly motivated. Motivation thus ensures workforce stability.
4. Motivation facilitates the maintenance of cordiality in the employer–employee relations within organizations. When employee needs are fulfilled, they develop a sense of loyalty. Indeed, motivated employees can understand their management better and avoid confrontations with it.
5. Motivation enables organizations to build a positive image among the general public and more specifically in the labour market. Motivated employees contribute positively to any organizational initiatives that aim at building goodwill.
6. Motivation, morale and job satisfaction are interrelated. Therefore, high employee motivation naturally boosts employee morale and increases job satisfaction.[6] Morale is an employee's attitude towards his or her job, superiors and the organization.

Forms of Employee Motivation

Motivation is usually associated with the unsatisfied needs of the employees. The nature of employee needs drives managers to choose a specific form of motivation. The motivation can be broadly be classified into intrinsic motivation and extrinsic motivation. We shall now discuss these two types of motivation.

Intrinsic Motivation

Intrinsic motivation refers to the drive or desire that arises from within an individual to do something or accomplish certain goals. Intrinsic motivation may simply be defined as "what people do without external inducement."[7] In organizations, intrinsic motivation emerges from an employee's internal feelings. Individuals' personal interest, desire, pleasure, satisfaction, fulfilment, etc. act as drives to internally motivate them. Intrinsically motivated employees will seek reward in the form of enjoyment, interest or satisfaction in work. It is generally stated that intrinsic motivation has better and more enduring results than extrinsic motivation.[8] Experts on motivation feel that motivation from extrinsic sources is just complementary and additive to intrinsic source-based motivation.[9] Factors that promote intrinsic motivation in individuals are: (i) challenge, (ii) curiosity, (iii) cooperation, (iv) control, (v) competition, (vi) recognition and (vii) fantasy.[7] We shall now discuss each of them briefly.

1. **Challenge**—Individuals are intrinsically motivated when they do personally meaningful tasks that present reasonable (intermediate) level of difficulty.
2. **Curiosity**—Individuals' eagerness to know the outcome of the activity performed by them.
3. **Cooperation**—Satisfaction obtained by individuals through the help rendered to others in their goal accomplishment initiatives.
4. **Control**—Individuals get satisfaction when their basic desire to exercise control over what happens to them are fulfilled.
5. **Competition**—Satisfaction derived by individuals when they find their performance positive and superior in comparison to that of others. Competition is a powerful group-level intrinsic motivator.[10]
6. **Recognition**—Satisfaction obtained by individuals when they receive recognition and appreciation for their achievements. It is capable of motivating both individuals and groups in organizations.
7. **Fantasy**—Satisfaction received by individuals through their sheer imagination of situations and objectives that may not exist in reality.

It is to be noted that intrinsic motivation never means that an individual will not look for any external rewards for their accomplishments. It actually indicates to the management that external rewards alone are not sufficient to produce desired behaviour among employees.

Extrinsic Motivation

When the drive to do something or accomplish certain goals comes from outside of an individual, it is called extrinsic motivation. When external reasons influence a person's behaviour, it is called external motivation. External factors influence employees' needs and their behaviours. Pay raise, material rewards, promotion, praise, recognition, social approval, time off, special assignments and status are a few examples of extrinsic motivational factors. Work-linked extrinsic motivators are capable of dominating the intrinsic motivator to the end that intrinsic motivation simply disappears.[11] The different kinds of motivational practices of a reputed power company are presented in Box 14.1.

Extrinsic motivation is often linked to the term engagement. The actual feeling of being motivated is often called employee engagement.[12] This feeling enables employees to put their best efforts to the work (motivated behaviour). Engagement may also be described as a response or consequence linked to behaviour.[13] The engagement can be classified into positive engagement and negative engagement. When appreciation, monetary reward or any other pleasant consequences follow the desired behaviour of the motivated employees, it is called positive engagement. The purpose of positive engagement is to encourage the desired behaviour and ensure its continuance in the future. As against this, when unpleasant outcomes like nagging and reprimands are stopped, removed or avoided as a consequence to desired behaviour, it is called negative reinforcement. These kinds of reinforcement convince the employees to do better in their job so that they can have the unpleasant condition removed from their work environment.

The total motivation can be greater only when the intrinsic and extrinsic motivations are high.[14] In other words, the total motivation is likely to be lower if intrinsic motivation is low and extrinsic motivation is high and vice-versa.

Box 14.1
Extrinsic and Intrinsic Motivational Exercises at Larsen & Toubro (L&T) Power

As a part of its motivational strategies, L&T Power develops the entrepreneurial skills of its workforce by enabling and empowering them to take appropriate risks. It encourages employee participation by inviting suggestions and opinions. It offers competitive compensation and rewards to motivate and retain the talented workforce. As a part of its intrinsic motivational strategies, it provides challenging, interesting and motivating assignments to its people that offer them a sense of professional fulfilment. This company also offers its employees freedom at work, unmatched leadership and the opportunity to grow at a rapid pace.

Besides the usual motivational practices, some of the L&T group companies offer fun-based innovative motivational activities like playing instruments, singing and dancing to its employees. For instance, this company provides music lessons to its employees through its online music academy. It also ensures that its employees participate in webcerts' (online concerts), with willing employees logging on at the same time, and playing or singing. It also conducts dancing classes for its employees through a choreographer throughout the year. It also offers quizzing and a "management" film festival.[85]

Approaches to Motivation

As seen in Figure 14.1, the major approaches to enhancing employee motivation are compensation approach, job design approach,[15] organizational culture approach and workplace relationship approach. We shall now discuss them briefly.

Compensation Approach

Compensation approach attempts to offer extrinsic motivation to employees while job design approach looks to increase their intrinsic motivation. Compensation approach of motivation is typically divided into direct compensation and indirect compensation. Direct compensation includes basic pay and variable pay, such as profit sharing, gain sharing and equity plans. Indirect compensation includes the benefits enjoyed by the employees but paid by the organization. Canteen facility and transport facility are a few examples of indirect compensation.

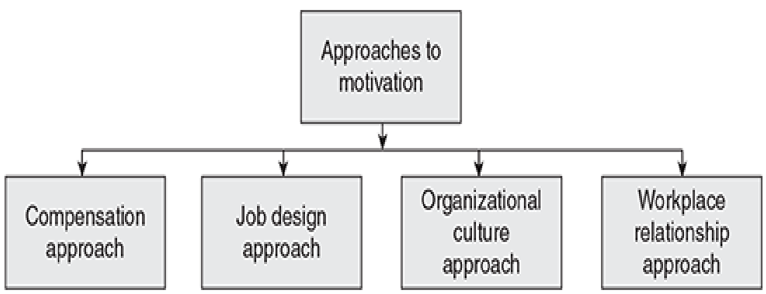

Figure 14.1
Approaches to Motivation

Besides the base salary, an organization also offers productivity-linked wage incentives to motive employees and enhance their performance. Wage incentives is any form of performance-based financial and/or non-financial rewards payable to attract, retain and motivate the best talents without any permanent financial commitment for the organization. Wage incentive plans are typically classified into three categories. They are individual incentive schemes, group incentive schemes and organization-wide incentive schemes.

Individual incentive schemes—Organizations adopt individual incentive programmes when the performance of each employee can be measured with a fair amount of accuracy. Usually, a portion of the employee's pay is decided as a function of his/her performance. The aim of individual incentive programmes is to enhance motivation, efficiency, commitment, involvement and personal satisfaction of the employees. Without doubt, there is a direct and specific link between employee performance and earnings and, this link can be used to enhance productivity.[16]

Group incentive schemes—Organizations offer group incentive schemes for their employees to avoid the problems of interpersonal rivalry. Similarly, when the individual job performance cannot be measured with a fair amount of accuracy, organizations may opt for group incentive schemes. Many jobs in modern organizations require collective efforts from many persons. In such a situation, it becomes necessary for the organizations to offer group incentive programmes to accomplish the organizational and performance goals.

The essence of group incentive is gain sharing by the members through cost reduction measures. The two major factors influencing the group incentive scheme decisions are the size of the group and the nature of the activities. In any group incentive scheme, the total bonus payable to a group is determined on the basis of its overall performance.

Organization-wide incentive plans—Through organization-wide incentive plans, an organization aims at motivating all its employees to work hard both for the organization and for their own interests. The incentives available to the employees under organization-wide plans normally depend upon the overall performance of the organization for a specific period. The primary aim of this method is to develop employees' unity, cooperation and eventually an ownership interest in the organization.

Job Design Approach

The primary purpose of a job design is to increase an organization's ability to meet its objectives effectively through its motivated workforce. Job design intends to offer intrinsic motivation to its employees. The job design strategies that offer intrinsic motivation to employees include job enrichment, self-managing teams, job rotation, job reengineering, job enlargement, participative management, peer performance review and high performance work design. We shall now discuss the job design strategies briefly.

Job enrichment—Job enrichment refers to the development of work practices that challenge and motivate the employees to perform better. It often results in achieving desired improvements in productivity, safety of work, quality of products/services and job satisfaction.

Self-managing teams—Teams that are usually entrusted with the overall responsibility for the accomplishment of work or goal are called self-managing teams. They enjoy autonomy in decision making on matters involving when and how the work is done.

Job rotation—Job rotation refers to moving employees from one job to another in a predetermined way. This enables an employee to perform different roles and gain exposure to the techniques and challenges of doing several jobs.

Job reengineering—Job reengineering is the process of streamlining jobs in the form of combining a few jobs into one, redistributing the tasks among various jobs and reallocating the resources. It also involves reconsideration of the methods of job performance, physical layouts and performance standards.

Job enlargement—Job enlargement transforms the jobs to include more and/ or different tasks. Its basic aim is to make the job more attractive by increasing the operations performed by a person in that job.

Participative management—Participative management means allowing employees to play a greater part in the decision-making process.[17] It has been found to be useful in improving the quality of work life, job enrichment, quality circles, total quality management and empowerment.

Peer performance review—Peer review is a performance evaluation technique adopted by an organization in which the employees in the same rank rate one another.

High performance work design—Developing a high performance work design is also considered as a strategy for job enrichment. Effective work groups are created in an organization through this technique to achieve a high level of performance.[18]

Organizational Culture Approach

The culture of an organization has a direct impact on the motivational levels of the organization. Corporate philosophy, leadership strategies, corporate goals and organizational setting typically determine the culture of an organization. Culture influences the way employees evaluate ideas and act on them.

Generally, employees associated with an organizational culture that promotes teamwork, collaboration, support and encouragement are likely to be better motivated. As against this, employees linked to an organizational culture that advocates centralization, dependence and close guidance are likely to be less motivated.

Workplace Relationship Approach

The nature and type of relationship existing between management and employees can significantly influence the motivational levels of an organization. In organizations where labour–management relationship is free of tension, conflict and distrust, employees are likely to be better motivated. When relationships are strained, employees are likely to lose faith in the management's words and deeds. They will then remain less motivated. Poor superior–subordinate relationship has been found to be a major cause of low motivation in organizations.[19] An open communication system can ensure that the actions of the managers are properly understood and interpreted by the employees. This can in turn help the managers to motivate their employees better and create a positive attitude in them. The motivational practices of an India-based *Fortune* 500 company are presented in Box 14.2.

Factors Influencing Work Motivation

Several researches have been carried out by psychologists to understand the reasons behind the different responses from organizational members to identical motivational measures. According to Michael G. Aamodt,[20] four factors that are responsible for the differences in employee responses to the motivational measures of organizations are: personality, self-esteem, an intrinsic motivation tendency and need for achievement. We shall now discuss each of them briefly.

Personality—Researchers have found strong and consistent relationship existing between personality characteristics and performance motivation.[21] For instance, the five dimensions of personality, i.e. openness to experience, conscientiousness, extroversion, agreeableness and stability are strongly and logically related to different types of work motivation in different degrees. Research has indicated that stable, conscientious, disagreeable, and extrovert individuals have the highest level of motivation.[22]

Self-esteem—This is the degree to which people view themselves as valuable and worthy. Generally, individuals with high self-esteem are likely to be more motivated than those with low self-esteem.[23] Employees who have a positive and good feeling about themselves are generally better motivated to do well in their job than those who have a negative feeling of themselves.

Box 14.2
Motivational Strategies at ONGC

The HR vision of ONGC, namely, "To build and nurture a world-class human capital for leadership in energy business," provides clear direction to the HR department in its endeavour to develop effective motivational strategies. In fact, the HR policies of this company aim at developing a highly motivated, vibrant and self-driven team. This company has a reward and recognition scheme, a grievance handling scheme and a suggestion scheme to keep its employees motivated. It also has several incentive schemes to enhance the motivation and productivity of its employees. A few of these schemes are: (i) productivity honorarium scheme, (ii) job incentive, (iii) quarterly incentive, (iv) reserve establishment honorarium, (v) roll out of succession planning model for identified key positions and (vi) group incentives for cohesive team working, with a view to enhance productivity. Since this company strongly feels that motivation plays a pivotal role in HR development, it has in-built systems to recognize and reward its employees periodically.[86]

An intrinsic motivation tendency—Employees who incline more towards intrinsic motivation are more likely to persist in tough and challenging situations. In contrast, employees with extrinsic motivational orientation tend to give up early in their initiatives. Simply put, intrinsically motivated persons normally persist with their motivated behaviour for relatively longer periods than those who are more extrinsically motivated. Intrinsic motivation is thus associated with greater performance, more perseverance, creativity and higher level of satisfaction when compared to extrinsic motivation.[24]

Need for achievement—The need for achievement is possessed by all people in different degrees.[25] Individuals who rate themselves high in achievement motivation are likely to work harder and more persistently than those who are low in achievement motivation. People who begin to believe in their ability to achieve are more likely to do so than those who expect to fail.[26]

Motivational Process

The word, motivation, which originates from the Latin word, *movere*, meaning "to move" is actually a process. The crucial role of managers in any motivational process is that of identifying the needs important to the employees, conditioning their behaviour and facilitating the fulfilment of identified needs and organizational goals. As Figure 14.2 shows, the motivational process of individuals typically includes steps like: (i) experiencing unsatisfied needs, (ii) searching for ways and means to satisfy needs, (iii) selection of goal-directed behaviour, (iv) implementation of the selected behaviour and (v) experiencing rewards or punishments.[27] Let us now briefly discuss the different stages in the motivational process.

Experiencing Unsatisfied Needs

A need is something that remains to be fulfilled for an individual. It is also an internal state that makes some outcome more attractive. The unmet needs of a person act as drive or desire to attain motivated behaviour. Understandably, motivation is possible only when a person has one or more important but unsatisfied needs. Thus, the presence of strong needs is an essential prerequisite for the success of motivational process.

Figure 14.2
Steps in the Motivational Process

Searching for Ways to Satisfy Needs

It is but natural for the persons with needs to find ways and means to satisfy those needs. In fact, the unsatisfied needs are the driving force within individuals that propel them to desired behaviour or specific action. Each unsatisfied need is capable of producing a variety of behaviours, actions and goals in people. For instance, when an employee feels that his promotion is overdue, he may decide to either demand the management to sanction it or put in additional efforts in the job hoping to get that promotion or search for a new career befitting his knowledge, experience and ability.

Selection of Goal-directed Behaviour

Once individuals decide on their way of satisfying the needs, they choose a specific course of action and display a goal-directed behaviour. Unsatisfied needs are capable of activating, directing and sustaining the goal-directed behaviour of individuals. In the example of the employee whose promotion is overdue, if the employee decides to pursue the second option of working hard to earn his promotion, he will begin to exhibit appropriate behaviour necessary to accomplish the goals.

Implementation of Selected Behaviour

This stage involves the execution of the predetermined course of action and exhibition of appropriate behaviour. At this stage, an individual consciously enacts a specific goal-directed response (behaviour) in an expected situation.[28] In the example of the employee whose promotion is overdue, these behaviours may include among others working long hours, exceeding performance targets, improving the relationship with superiors, etc.

Experiencing Rewards or Punishments

The outcome of any motivational process will be reward or punishment for an individual. When the motivational process eventually leads to the satisfaction of an individual's targeted needs, it becomes a positive and rewarding experience for that individual. The rewarding experience indicates to the individuals that their behaviour was appropriate and can be repeated in the future. In contrast, if the needs of the individuals are not satisfied despite their best efforts, then it becomes an unproductive and punishing experience for them. In such situation, they need to have a relook at their needs, plans and behaviours.

Theories of Motivation

Motivational experts hold different views on what motivates the employees in their job. These different views have led to the development of multiple theories on motivation. Each theory advocates its own approach for effective motivation of people. The results of these theories are only suggestive and not conclusive. Broadly, the motivational theories are classified into two categories, i.e. content theories and process theories.[29] Figure 14.3 shows the theories of motivation.

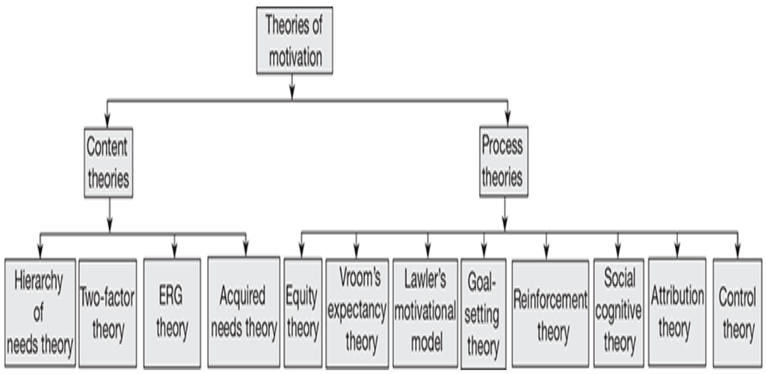

Figure 14.3
Theories of Motivation

The content theories focus on the employees' personal needs that they wish to satisfy through work. They focus on the basic needs that decide how people behave. They also focus on the characteristics in the work environment that facilitate the need fulfilment. In contrast, the process theories explain how various variables jointly influence the amount of efforts put in by the employees. They place emphasis on how human behaviour is initiated, sustained and extinguished.[30] Maslow's hierarchy of needs theory, David McClelland's acquired needs theory and Herzberg's two-factor theory are a few examples of content theories. Equity theory, expectancy theory, social cognitive theory and goal-setting theory are some of the process theories. We shall now discuss the content-based motivational theories in detail.

Content Theories

Maslow's Hierarchy of Needs theory

The hierarchy of needs theory proposed by Abraham Maslow in 1943 is one of the well-known theories of motivation. According to Maslow,[31] human needs are hierarchical in nature. This need hierarchy has five stages indicating five needs. As seen in Figure 14.4, these needs are physiological needs, safety needs, social needs, esteem needs and self-actualization needs. The bottom-most needs in the hierarchy are usually survival (physiological) and safety needs. The topmost needs are self-esteem and achievement needs. Social needs are placed in the middle of the hierarchy. As per Maslow, when one set of needs are fulfilled, the individuals move to the next need as the satisfied need does not motivate them any longer. We shall now look at a brief explanation of each of these needs.

Physiological or survival needs—These needs usually include the need for basic necessities of life such as food, water, cloth, shelter, sleep and other physical requirements. As long as these needs remain unfulfilled for a person, the other higher order needs cannot motivate him/her. This is because the fulfilment of these lowest-level needs is essential for people to continue living. Organizations usually fulfil these basic needs of employees through the payment of basic salary and wages.

Safety or security needs—Once the basic physiological needs are adequately satisfied, the need for physical safety and job security arises for people. Here, physical safety refers to the need to be free from physical dangers such as bodily injuries and emotional harms such as psychological problems. Job security refers to the need to be free from the danger of losing one's job and the resultant loss of food, cloth, shelter, etc. Safety and security needs thus include physical security, job security, order, stability, structure and freedom from fear, chaos and anxiety.[32] Pensions and fringe benefits are the instruments available to organizations to fulfil the safety needs of the employees.

Social or love needs—Once safety and security needs are relatively well-satisfied, social needs become the dominant need for people. In this stage, people look to satisfy their need for love, friendship, affection, acceptance and the sense of belonging. Social needs are generally viewed as powerful motivators of human behaviour in organizations.[33] Social or love needs primarily include an individual's desire to be in the company of others. Socializing with co-workers, supervisors, customers and others in the organization enables the employees to fulfil their social or love needs.

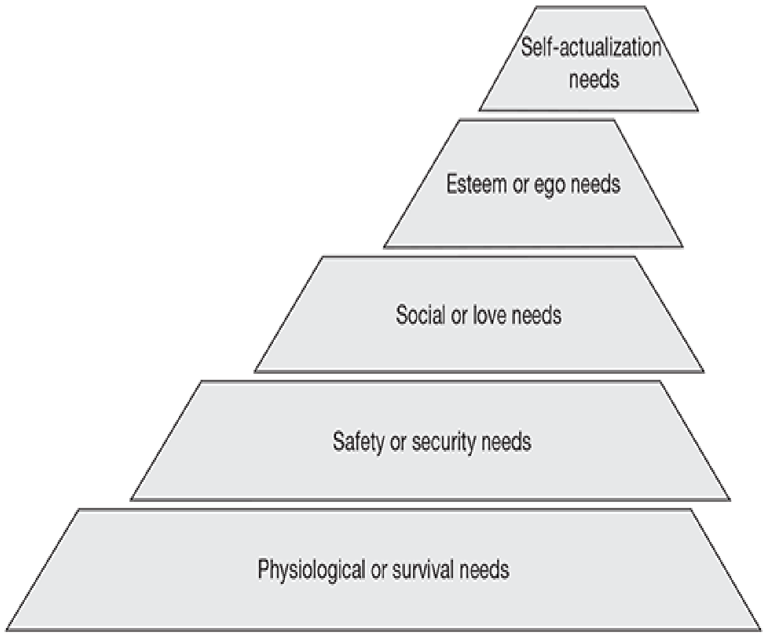

Figure 14.4
Maslow's Hierarchy of Needs Theory

Esteem or ego needs—When the primary needs comprising physiological, safety and social needs are satisfied, the secondary needs such as esteem or ego needs become the predominant motivators of people. Esteem needs are generally classified into internal and external esteem. People satisfy their internal esteem (also called self-esteem) needs by acquiring competence, strength, confidence, mastery, freedom and independence. They satisfy their external esteem (also called esteem of others) needs by gaining prestige, status, dignity, glory, dominance, importance, recognition, appreciation and attention of others. Organizations may provide recognition, increased responsibilities, promotion to enable the employees to fulfil their esteem needs.

Self-actualization needs—These needs are the highest needs in the Maslow's hierarchy of needs. They include a person's need to grow and realise his or her full potential in life. Self-actualization is an open-ended need category as it is connected with the need "to become more and more what one is to become everything one is capable of becoming."[34] In other words, it is to achieve what one is capable of achieving and thus attaining self-fulfilment. In organizations, presence of opportunities for training, growth, advancement and creativity can facilitate the fulfilment of self-actualization needs of employees.

According to Maslow, people satisfy their needs in an ascending order by moving from one level to another in the hierarchy only after they substantially satisfy the needs of that level. He has described that the hierarchy may function in a different ascending order for some individual but for majority, it follows the order developed by him.[35] Let us now evaluate Maslow's need hierarchy theory.

Strengths of Maslow's hierarchy of needs theory—Maslow's needs theory became one of the most influential concepts in behavioural studies. We shall now see the strengths of the hierarchy of needs theory.

1. Maslow's need hierarchy is viewed as a simple and straightforward analysis of human motivation with human needs forming the basis for analysis.This theory has found wide acceptance among the practising managers for its logical explanation and easy-to-understand format.
2. The emphasis of Maslow is in studying the healthiest and happy personalities when understanding the nature, needs and operations of the people. This is in contrast to many other personality theories that focus largely on the perspectives of maladjusted personalities.[36]
3. Maslow has maintained a reasonably sensible and realistic view of the human nature. He has insisted that the process of self-actualization cannot occur automatically as it requires initiatives, desires and efforts on the part of the individuals.[37]

Weaknesses of hierarchy of needs theory—Even though Maslow's theory is a widely acclaimed personality theory, it has quite a few weaknesses. We shall now discuss these weaknesses briefly.

1. Maslow's hierarchy of needs theory is criticized on the ground that its major concepts are not supported by any empirical evidence. Moreover, very few researches have been carried out to test the validity of the theory.[38]
2. This theory is also faulted for its assumption that the needs are satisfied in order or sequence only. In reality, higher order needs like self-actualization need not wait till the lower order needs like physiological needs are fulfilled. For instance, self-actualization needs may take precedence over physiological or security needs in some people in certain situations.
3. Needs theory has also been criticized for the methodology adopted by Maslow for developing the concepts. For instance, he had finalized the characteristics of self-actualized individuals

based on the biographies and writings of 21 people whom he stated as being self-actualized. This subjective judgment on self-actualization and self-actualizers cannot be accepted as a scientific fact.

4. Another criticism against this theory is on its culture bias. Maslow's theory is viewed as a western-oriented concept. This is because self-actualization is predominantly an individualized western concept and this may not be the case in non-western cultures.[39] Further, the role and relevance of culture as a differentiator and determinant of need priority is not adequately recognized by this theory. For instance, the employees of European countries may feel that their esteem needs are better satisfied than their social and security needs, perhaps due to their cultural factors.

Herzberg's Two–factor Theory

Frederick Herzberg, an American psychologist, developed the motivation-hygiene theory. This theory, popularly known as the two-factor theory, is also called satisfier–dissatisfier theory. The aim of Herzberg's study is to know the problems of human motivation at work and find an answer to the question what do employees want from their job? Herzberg conducted a survey among 200 engineers and accountants to know when they felt exceptionally good or bad about their jobs. The responses were used to determine the events (factors) responsible for job satisfaction (good feeling) and job dissatisfaction (bad feeling). He eventually identified several important but different determinants for job satisfaction and job dissatisfaction.

Herzberg described the determinants of job satisfaction as "motivators" and those that prevent job dissatisfaction as "maintenance" or "hygiene" factors. Since the basic assumption of this theory is that two separate factors are responsible for job satisfaction and job dissatisfaction, it came to be known as the two-factor theory. Table 14.1 shows the factors responsible for the motivation and maintenance of employees in organizations.

According to Herzberg, the absence of maintenance factors results in job dissatisfaction. But the presence of maintenance factors does not automatically lead to job satisfaction because different kinds of factors are needed to provide job satisfaction. This is because job satisfaction and job dissatisfaction are not opposite of each other. They are in reality concerned with two different kinds of needs of employees. To put it differently, absence of job satisfaction cannot be considered as job dissatisfaction but as no job satisfaction only.

The two-factor theory presents four possible scenarios for organizations. They are as follows:

- In the first scenario, when both the motivation and maintenance factors are high in jobs, then employees will have higher motivation to work well and fewer complaints about work environment.
- In the second instance, when motivation factors are high and maintenance factors are low in jobs, then employees will have higher motivation but many complaints about work environment.
- In the third scenario, when the motivation factors are low and maintenance factors are high in jobs then employees will have lower motivation to work well but fewer complaints about the work environment.
- In the fourth scenario, when both motivation factors and maintenance factors are low in jobs, then employees will have low motivation as well as many complaints about the work environment.

Table 14.1 Factors Responsible for the Motivation and Maintenance of Employees

Motivational factors (job satisfiers)	Maintenance or hygiene factors (job dissatisfiers)
Achievement	Company policy and administration
Recognition	Supervision
Attraction of the work itself	Salary
Responsibility	Working conditions (space, heat, light, ventilation, refreshment, etc.)
Advancement	Interpersonal relationship (with supervisors, peers, subordinates and others)
Growth	Status
	Security (job as well as physical)
	Personal life

Figure 14.5 shows the motivation and maintenance factors of Herzberg's two-factor theory.

According to this theory, motivational factors are more important of the two factors. Motivational factors have more enduring and effective impact on employees than those factors that prevent job dissatisfaction.[40] Further, motivational factors directly affect the employees' motivational drive leading to better employee engagement, higher productivity and enhanced job satisfaction. In its absence, employees are de-motivated to work efficiently. We shall now evaluate the two-factor theory.

Strengths of the two-factor theory—The two-factor theory advocated by Herzberg has the following strengths:

1. Although Herzberg's theory has been replicated many times in the past, the original results still hold true even today. Herzberg's description of motivation and maintenance factors enable managements to gain deep insight into the factors that motivate the employees and those that retain them.[41]
2. The two-factor theory has been appreciated for clearly making the management responsible for providing adequate motivators or hygiene to the employees through company policies, interpersonal relations, working condition etc.

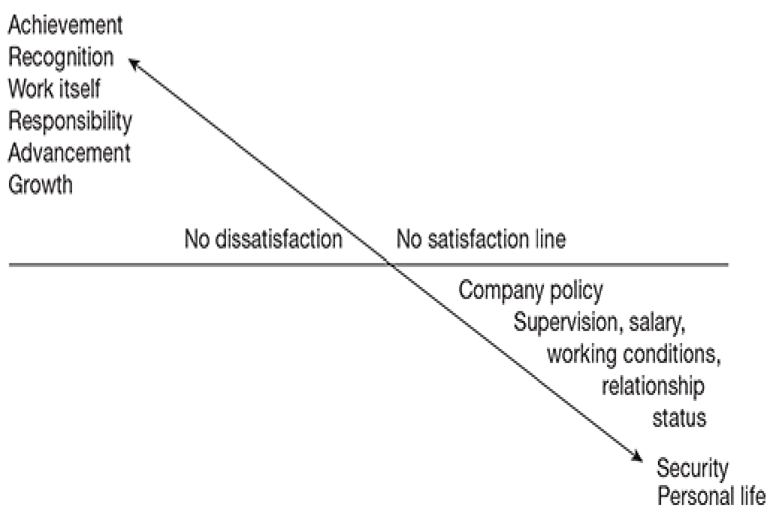

Figure 14.5
Motivation and Maintenance Factors of Herzberg's Two-factor Theory

Even though the Herzberg's theory has been acclaimed as one of the most influential theories on human behaviour at work, it has a few important weaknesses. We shall look at them now.

1. Herzberg's theory has been criticized for the confusion in the classification of factors into motivational and maintenance factors. For instance, pay has got an almost equal rating as a motivational factor and as a maintenance factor from the employees involved in the study.[42]

2. This theory is faulted for not considering the role of individual differences such as age, education, gender, sex, social status, experience and occupation in deciding the classification of motivational and maintenance factors.
3. Herzberg has been questioned especially for the methodology adopted by him in the research work. The questionnaire techniques used by him are capable of prejudicing the results.[43]
4. The two-factor theory has been criticized for ignoring the influence of situational variables in classifying the factors. Herzberg's description of money as a mere maintenance factor and not a motivator for employees cannot always be true. This is because the role of money as a maintenance or motivational factor is decided more by the situation than by any other factors.

ERG Theory

Clayton P. Alderfer developed the ERG theory along the lines of Maslow's hierarchy theory but with a few differences. He classified the human needs under three major categories, instead of Maslow's five.[44] These three need categories are: (i) existence needs, (ii) relatedness needs and (iii) growth needs. Let us discuss these needs briefly.

1. **Existence needs**—It covers all forms of material and psychological desires of people. It includes all of the first and second level basic needs (physiological and safety needs) mentioned by Maslow.
2. **Relatedness needs**—It involves the need for maintaining satisfactory relationship with other people in the organization. It focuses on the recognition, achievement and relationship needs of the people. It is similar to a part of Maslow's third and fourth level needs (social and "esteem of others" needs).
3. **Growth levels**—It refers to personal growth, creativity, competence and self-development needs of the people. It is similar to the fourth and fifth level needs (internal esteem and self-actualization needs) of Maslow.

According to Alderfer, people's needs are not satisfied in any order. Different types of needs can be active at the same time. In other words, higher needs of a person need not wait for the lower needs to be fully or mostly satisfied before they become active. Alderfer introduced a frustration-regression principle as a part of his ERG theory.

According to ERG theory, Even if the lower-level needs are already satisfied, people will once again focus on these needs when their efforts to satisfy the higher-level needs are frustrated. For instance, if a person fails to fulfil his growth or relatedness needs, he will tend to over-satisfy his existence needs by making a lot of [45] money.[45] This theory thus assumes that people freely move up and down the need hierarchy depending upon the time, situation and expediency.

McClelland’s Acquired Needs Theory

American psychologist David McClelland developed the acquired needs theory. According to this theory, certain kinds of needs are learned or acquired during the life time of an individual. The three needs of such kind are: (i) need for achievement (nAch), (ii) need for affiliation (nAff) and (iii) need for power (nPow). People are usually driven by these three needs irrespective of their gender or culture. This theory insists that people are not born with these needs but learn them through life experiences.[46] Let us now discuss these needs briefly.

- **Need for achievement (nAch)**—This is the desire to achieve, succeed and excel in challenging jobs. Persons with this need normally take up responsibility for finding solutions to difficult problems, set moderately tough goals and often get feedback on their progress and success. They do not attach importance for praise or rewards. This is because they generally consider the accomplishment of task itself as a reward. Most often, they prefer to work alone. People with need for achievement usually like to surpass others in competitive performance.
- **Need for affiliation (nAff)**—This is the desire to be friendly with others. Enjoying team work, giving importance for interpersonal relationship, avoiding conflict, showing desire to be liked by others, and reducing the level of uncertainty are a few examples of need for affiliation. People with this need normally prefer collaboration over competition. They are averse to high risk or uncertain situation. They tend to go along with the group and get influenced by the group behaviour.
- **Need for power (nPow)**—This is the need to influence and eventually control the behaviour of others. It involves making others behave in a way one wishes. Such people want to acquire authority over others and be responsible for them. Needs to win arguments, successful persuasion, etc. are examples of need for power. People with this need normally enjoy competition and triumphs. They like to protect and promote their status and recognition.

According to McClelland, people with high need for achievement display liking for tasks or jobs that are entrepreneurial and innovative in nature. People with need for affiliation are usually good at the job of integrating people (such as HR management). They achieve success in coordinating the activities of different people and departments.[47] People with high need for power usually succeed in getting to the top positions in the organizational hierarchy. This need is closely associated with how people view or deal with their success and failure. For instance, fear of failure (and the resultant erosion of authority) may motivate some people with the need for power to succeed in their goals. In rare instances, fear of success (and the resultant loss of privacy) can also act as motivating factors.[48]

Evaluation of acquired needs theory—McClelland and his team developed the Thematic Apperception Test (TAT), a projective psychological personality test, for measuring the individuals' level of need for achievement, affiliation and power. Participants of this test are shown a series of ambiguous pictures. Then they are asked to develop their own imaginary but spontaneous stories about each picture shown. According to McClelland, the participants, in all probability, will project their own needs through these stories. Based on the results, appropriate schemes may be drawn up for motivating the employees. It can also be used for determining the types of jobs for which an employee might be well-suited. However, it has a few major limitations and they are:

1. The projective psychological personality test used by McClelland is criticized as being unscientific.
2. The basic assumption of this theory—that the acquisition of motives or needs usually happens at the childhood of a person and is not prone to easy or frequent changes—is being questioned.[49] Researchers have also questioned the wisdom of this theory that the needs are permanently acquired.[50]

Process Theories

Unlike the content theories that focus on people's needs that cause certain behaviour, the process theories (also called goal theories) primarily focus on the process of motivation. Content theories attempt to find answers to questions like what motivates people while process theories focus on questions like how to motivate? We shall now look at the process theories.

Equity Theory

Equity theory was developed in 1965 by Stacy Adam. The essence of this theory is that people expect social justice in the distribution of rewards for the work done by them. According to this theory, job satisfaction and performance of employees depend upon the degree to which they perceive fairness and equity in their pay and promotion. The level of equity or fairness is decided by employees by comparing their efforts and rewards with others in the organization.

Equity theory states that people seek certain outcome in exchange for their inputs or contributions. The input may refer to employee's efforts, experience, seniority, knowledge, skill, intelligence, etc. The outcome may include, among others, pay, promotion, benefits, praise, recognition, improved status and superior's approval. Typically, most exchanges require a multiple of inputs as well as outcomes. This is quite similar to buying or selling of commodities.

According to Adam, the state of equity exists in an employee when he perceives that his ratio of efforts to rewards is equivalent to the ratio of other employees. This can be expressed though a simple expression:

$$\frac{\text{Rewards received by an individual}}{\text{Efforts expended by an individual}} = \frac{\text{Rewards received by another individual}}{\text{Efforts expended by another individual}}$$

In such comparison, when the ratios are found to be greater or lesser, the employee may perceive a state of injustice. For instance, when a person with higher qualifications and experience receives the same or less salary than another with lesser qualifications and experience, the employee may perceive inequality. Generally, the perception of such inequality may force (motivate) a person to bring equity and restore balance.[51] Individuals normally adopt any one or more of the following methods to reduce their perceived inequality.[52] They are:

1. **Modifying the input** to match the outcome. For instance, an underpaid employee may decide to work less or an overpaid employee may decide to work more to ensure equality.
2. **Modifying the outcome** to match the input. For instance, a less paid person may demand more pay to match the efforts put in by him.
3. **Distorting perception** happens when change in input or outcome is not possible. In such cases, people may tend to perceive the situation as per their convenience. For instance, when there is no equality in the rewards, an employee may distort the perceived rewards of others to make it equal to his own reward. For instance, an overpaid employee may believe and justify that his inputs are more than the underpaid employees of the same cadre. Similarly,

employees may also tend to perceive a better status for their job than what it is actually.

4. **Quitting** is the last option of employees to bring equality in efforts and rewards. This happens when all other options to achieve equality are not successful. The purpose of quitting is to find alternate jobs that are better in input–outcome ratio.

Evaluation of equity theory—Equity theory's insistence on the need to treat people fairly and equally has received wide approval among managers. It enables managers to gain insight into employees' perception of pay and other benefits. This theory rightfully insists that managers should consider the employee perception seriously as equity is more of a perceived phenomenon. It highlights the importance of comparison in the work situation and identification of reference persons.[49] It also emphasizes the need to treat employees equally in unique ways. However, the equity theory has a few weaknesses. They are as follows:

1. Researchers feel that it is difficult to practice equity theory because managers may not know exactly who the reference groups of employees are for their input–outcome comparison.[53]
2. This theory has also been questioned for its assumption that overpayment of rewards (outcome) leads to the perception of inequality. This is because employees are rarely informed about overpayment to them. Moreover, employees tend to change their perceptions of equality to justify their overpayment.[49]

Victor Vroom's Expectancy Model of Motivation

Expectancy model was developed by Victor Vroom in 1964. This theory is fundamentally based on a few assumptions such as: (i) individuals join an organization with clear expectations of their needs, motivation and environment, (ii) individual behaviour is usually their conscious decision, (iii) individuals seek to fulfil different goals and needs through their organization and (iv) individuals like to choose among the alternatives in order to maximise their outcome. This expectancy theory is based on the simple equation:

$$\text{Motivation} = \text{Expectancy} \times \text{Instrumentality} \times \text{Valence}$$

Here, expectancy refers to the probability perceived by a person that applying a given amount of effort will lead to a specific level of performance.[54] It indicates the confidence level of an individual on the outcome of efforts. High levels of efforts and persistence are usually the result of high expectancy. An individual's capability and experience and access to resources are the major determinants of his expectancy level.

Instrumentality refers to an individual's estimate of probability that a given level of achieved task performance will lead to a particular outcome. People would like to perform at a high level only when they believe that such performances are the "ways and means" to the desired ends like monetary benefits, job security, promotion, etc. When an employee believes that a good performance will get him an increase in salary or promotion, the instrumentality will have high value. In contrast, if an employee perceives no correlation between good performance and pay or promotion, then the instrumentality will have low or no value.[55]

Valence refers to the worth of an outcome as perceived by an individual. When an individual attaches high value to the outcome, he would have greater motivation to perform at higher levels.

The motivation equation explains that the tendency of a person to act in a specific way depends on the strength of his expectation of the outcome (reward) of his effort and the attractiveness of such outcome to him. In other words, people are generally motivated when they think that they will be rewarded if they complete the task and such rewards for the task are worth the effort. The essence of this theory is that people can be motivated to work harder only when they perceive that better performance will get them better rewards like the accomplishment of career goals and aspirations.

Expectancy theory focuses on the three-way relationship. They are: relationship between efforts and performance, relationship between performance and reward and relationship between reward and individual goal fulfilment (level of satisfaction). Newsom identified "Nine Cs" as important for expectancy theory. They are: challenges, criteria, compensation, capability, confidence, credibility, consistency, cost and communication.[56]

Evaluation of Vroom's theory—Several researches have supported the different elements of this theory. The strength of this theory is that it provides a process of cognitive variables that disclose the individual differences in work motivation.[55] The assumption of this theory that employees are rational people whose decisions are guided by perceptions and probability of estimate makes it significantly different from several other theories in which unmet needs are the determining factors.

However, the major limitation of this theory is that in practice people rarely make decisions in such a calculating and complex manner.[57] This theory has also been questioned for its claim that people are highly rational and objective in their decisions.

Porter and Lawler's Motivational Model

Porter and Lawler's model (1968) is one of the complete models of motivation. This theory is based on the expectancy model developed earlier by Victor Vroom. Authors of this model have established a different kind of relationship between employee satisfaction and performance based on Vroom's expectancy model. According to this model, when the rewards available to an individual are sufficient, he/she will then exert high level of performance that will lead to satisfaction. This is against the conventional thinking of "satisfaction leading to high level of performance."

As shown in Figure 14.6, the amount of efforts (the energy spent to do a task) put in by a person in a job depends on his/her perception of the likely reward from the work, the probability of getting such rewards and the perceived energy levels required for the performance of such job. Further, the actual performance (accomplishment on task) in the job is influenced by an individual's long-term characteristics, such as abilities and traits and also by his/her role perceptions (the type of efforts required for effective job performance as perceived by the individual).

The actual performance, in turn, leads to rewards. The reward for performance can be classified into two categories, i.e. intrinsic rewards and extrinsic rewards. Positive feeling, satisfaction and sense of achievement experienced by a person are examples of intrinsic rewards. Pay rise, better working conditions, improved status, etc. are examples of extrinsic rewards.

When the reward for performance is seen as fair and equitable by the individual, it leads to satisfaction. Lastly, the extent of satisfaction experienced by the individual tends to influence the future value of the reward for performance. Based on the extent to which performance leads to rewards, the perceived effort and reward probability (a perception whether differential rewards are based on differential efforts) is increased.[58] The past performance and/or accomplishment of an individual can influence his/her perception relating to this effort–reward probability.

Finally, to make their motivational programmes more effective and result-oriented, managers should ensure that they: (i) recognize the individual differences among the employees, (ii) match people to job (right job for right people), (iii) utilize appropriate, specific and time-bound goals, (iv) make people believe that their goals are achievable, (v) ensure that the rewards are individual-specific, (vi) make sure that the rewards are performance-oriented, (vii) make employees perceive that the reward systems are fair and just, (viii) pay adequate importance for money as a motivator (ix) make people believe that the organization has genuine concern for their growth and well-being and (x) give necessary importance for non-monetary motivations such as recognition and appreciation.[59]

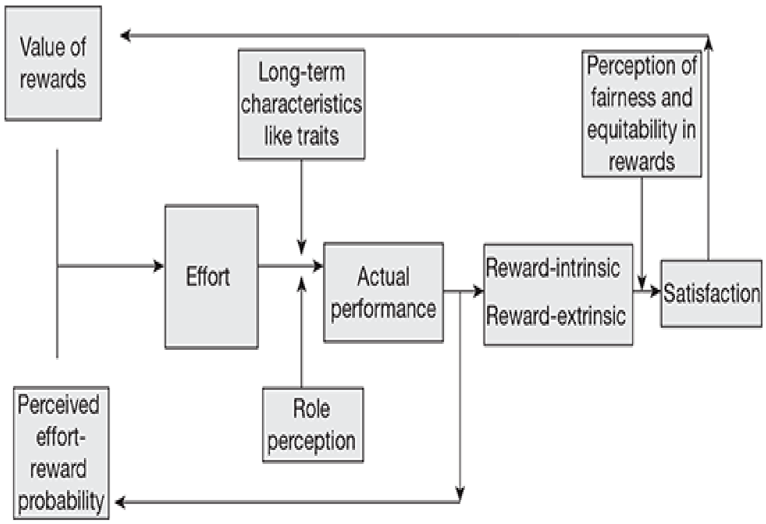

Figure 14.6
Motivational Model of Porter and Lawler[87]

Evaluation of Porter and Lawler's motivational model—Porter and Lawler's model is considered to be a complete model of motivation. It moves beyond the narrow concept of "motivational force" to the wider concept of "performance as a whole." In fact, this is the first model that has directly studied the relationship between satisfaction and performance.[60]

The versions of Vroom and Lawler are found to be valid in several testing done in rationalized organizations.[61] This motivational model succeeded in explaining most of the motivated behaviour, if not all.

This model clearly tells the managers that motivation is not simply a cause–effect factor. Instead, it requires them to carefully evaluate their reward structure, maintain good organizational structure and integrate effort–performance–satisfaction system into the whole system of management. This model however suffers from a few weaknesses. They are as follows:

1. The effort–performance–satisfaction link is more difficult to be achieved at the team and organizational levels. This is because many other factors, other than employees own efforts, may also significantly influence the performance.[62]
2. Porter–Lawler motivational model is viewed as a more complex motivational theory than most other theories on motivation.
3. Similar to Vroom's expectancy model, this model is also criticized on the ground that people may not be inclined to undertake a cumbersome exercise to make decisions.

Goal-setting Theory

Goal-setting theory was described by Edwin Locke and Gary Latham in 1968. This theory is based on the simple premises that a person's intention to work towards a goal is an important source of motivation. The steps involved in goal-setting are: (i) setting the goals, (ii) getting goal commitment and (iii) providing support elements like resources, action plans, feedback, etc. According to this theory, managers can increase the motivational levels of the employees by formulating specific, tough goals that are acceptable to them. Managers should then provide regular and timely feedback that helps employees track their own progress towards goal attainment. In this regard, Locke has identified four parts of goal-setting theory. They are as follows:[63]

1. **Goal specificity**—When goals are clear, specific and unambiguous, they will increase the motivational levels of the people. In other words, specific goals are more captivating than generalized goals. For instance, "visit your customer once in a week" is a more specific goal for a sales person than saying "do your best" to improve sales performance.
2. **Goal difficulty**—Hard and ambitious goals are capable of providing more motivation to people than easy goals. This is because easy goals do not present any challenge to the employees in their work. The tough, but achievable, goals require employees to stretch their limits (in terms of talents and skills) to accomplish them.
3. **Goal acceptance**—Prior to allocating tough and challenging goals, managers must ascertain the readiness and commitment of the employees to take up such types of goals. The best way to increase employee commitment to goal accomplishment is to involve them in the goal-setting process.
4. **Feedback**—Constant feedback to employees on their progress in goal-related performance is an important way of increasing performance. Such feedback will enable employees to identify the performance gap (difference between actual performance and expected performance), if any, in a timely manner.

Evaluation of goal-setting theory—The major merit of this theory is that it offers good understanding of the goal the employees are to achieve and rewards available to them for successful goal completion. The researches done on goal-setting theory have shown that this theory is capable of improving cost control, quality control and the satisfaction levels of the workers.[64] Further, researches on theories such as goal-setting have enabled organizations to shape job design programmes in a number of areas of work in the past two decades.[65] Management techniques such as management by objectives (MBO) developed by Peter Drucker are consistent with the goal-setting theory. The popularity of MBO is a certain indicator of the success of the goal-setting theory.

However, this theory has an important weakness. The efficacy of goal-setting is mostly studied in simulated situations in laboratory setting and this obviously raises questions about its validity in actual situation.[66]

Reinforcement Theory

Reinforcement theory (also called behaviour modification theory) was developed by the Harvard psychologist, B. F. Skinner. Reinforcement may be explained as something that causes certain behaviour to be repeated. According to this theory, behaviour is simply a function of its consequences. The crux of this theory is that employees' on-the-job behaviour can be modified through suitable and timely use of immediate rewards or punishments. For instance, the behaviour that gets rewarded is most likely to be repeated while the behaviour that gets punished is less likely to be repeated. Different forms of reinforcements can be used for different behaviour. The four important forms of reinforcements are: (i) positive reinforcements, (ii) negative reinforcement, (iii) punishment and (iv) extinction. We shall now briefly discuss each one of them.

1. **Positive reinforcements**—These reinforce the desired behaviour. For instance, providing a reward; offering social recognition; giving positive feedback; praising the employees for certain behaviour such as reporting on time, doing extra work, well-execution of tasks; etc. are positive reinforcements. The aim of providing such pleasant and rewarding reinforcements is to enhance the chances of the desired behaviour happening again.
2. **Negative reinforcements**—These strengthen the desirable behaviour by eliminating the undesirable situation or tasks. Here, an individual acts to avoid or escape something that is not pleasant. This is also called avoidance learning. For example, avoiding a noisy environment is a negative reinforcer, while achieving a noiseless or peaceful environment is a positive reinforcer. If an employee who gets repeatedly criticised by the supervisor for being late to office begins to come on time just to escape from reprimands, it is a negative reinforcement.
3. **Punishment**—This is nothing but the undesired consequences of undesired behaviour. Punishment typically follows an undesired behaviour. The aim of any punishment is to lessen the chances of occurrence of negative behaviour. When an employee is sternly warned for his underperformance, then the expectation is that the

negative outcome (severe warning) will discourage that person from repeating the undesirable behaviour (underperformance).

4. **Extinction**—This relates to the removal of positive reward, where the positive reward will no longer be available to the employee. Extinction may involve the suspension of pay rise, increments, bonuses, praise, etc. The idea behind extinction is that any behaviour that is not positively reinforced is likely to be discontinued in the future.

Since the purpose of any reinforcement is to make the employees learn certain desired behaviour and leave certain undesired behaviour as quickly as possible, the timing of reinforcement becomes important. The reinforcement schedule normally includes: (i) continuous reinforcement and (ii) partial reinforcement. In continuous reinforcement, every incidence of the desired behaviour is reinforced. Companies usually prefer continuous reinforcement, for it enables the employees to connect their behaviour with the desired reward. When cash or reward points are given to sales people for every successful sales deal made, it is called continuous reinforcement.

In partial reinforcement schedule, only some occurrences of the desired behaviour are reinforced and not all. Partial reinforcement is further classified into the following:

1. **Fixed interval schedules**—When employees are rewarded at particular time intervals, it is called fixed interval reinforcement (example, annual bonus).
2. **Fixed ratio schedule**—When employees are rewarded after a specified number of desired behaviour or action (example, piece rate wage system).
3. **Variable interval schedule**—When employees are rewarded in a random and unpredictable manner, it is known as variable-interval reinforcement (example, instant rewards to employees for good performance at surprise inspections).
4. **Variable ratio schedule**—When employees are rewarded after unplanned or random number of desired behaviour (example, rewarding an employee, say, after five to ten instances of desired action).

Evaluation of reinforcement theory—The results of researches in reinforcement theory aimed at behaviour modification among employees have proved to be encouraging. Reinforcement programmes that reward the target behaviour are found to be successful in motivating the employees and increasing productivity.

However, this theory has been criticized for a few reasons. For instance, this theory overstates the importance of extrinsic motivation for employees but in practice employees tend to get more satisfaction through intrinsic factors. Further, negative reinforcement, especially extinction, is not viewed as a good strategy to motivate the person for several reasons, such as the following:

1. It may discourage undesirable behaviour but it cannot lead to desired actions.
2. It may create ill-feeling and hostility among the aggrieved employees and also reduce employee morale.
3. It is possible that employees might retaliate against the supervisors, which may further worsen the situation.
4. Employees may tend to continue the undesired behaviour once the threat of punishment is withdrawn if he/she has not properly learnt the desired behaviour.[68]

Social Cognitive Theory

Social cognitive theory was discussed by Albert Bandura. According to this theory, an individual's behaviour in a situation is a function of the meaning of that situation to him. People make meaning out of the situation through three interrelated components. They are: (i) personal goals and incentives, (ii) sense of self-characteristics and (iii) perceived behaviour options.[69] This theory emphasizes that learning takes place in a social context and that much of what is learned is gained through observation of social environment. The basic assumption of this theory is that there are reciprocal interactions among personal, behavioural, social and environmental factors.

This theory states that people are motivated to develop a "sense of agency" (called human agency) in which individuals are proactively engaged in their own success and development. Sense of agency is something that enables individuals to recognize themselves as related to the world via complex causal chains/networks. This "sense of agency" enables individuals to apply a great extent of control over important events (thoughts, feelings and actions) of their life.[70] This theory further states that people affect and get affected by individuals' actions and environment in a reciprocal and bidirectional fashion. Thus, every individual's behaviour is the product of constant interaction between cognitive, behavioural and contextual factors.

As per this theory, the process of motivation includes setting goals by individuals, self-evaluation of progress, deciding the outcome expectation, acting in accordance with values, social comparisons with other people (to obtain information about their learning and goal achievement) and lastly, self-efficacy (a measure of one's own capability to complete tasks and attain goals).

Evaluation of social cognitive theory—Researches on the social cognitive theory support the fundamental assumptions of this theory, namely, cognitive factors have an effect on the personality development and this in turn affects the performance, productivity and motivation.[71] However, this theory has been criticized for failing to connect all its concepts under one unified principle.

Attribution Theory

Attribution theory was popularized by Fritz Heider. This theory focuses on the causes that people attribute to the perceived successes or failures in their lives. This theory attempts to offer explanation for the beliefs individuals have about why they behave in the way they do. A person may attribute his/her failure in a particular task or mission to his/ her own lack of effort and ability or as another person's fault. In the words of Kelly, "attribution theory concerns the processes by which an individual interprets events as being caused by a particular part of a relatively stable environment."[72] Earlier, people used to attribute the positive outcome or achievement–situation to four main causes. They are: ability, effort, task difficulty and luck. Subsequently, the causes have been expanded to include intrinsic motivation, interest, mood and superior's competence as well.[73]

Attribution theory also deals with how superiors deal with the performances of others. For instance, a manager who attributes the outcome (success or failure at task) to an employee's skills will adopt different approaches towards outcome. Their approach will be different from those who attribute the outcome to the situation. Some researchers insist that attribution theory is closely linked to achievement theory and control theory.[74]

Evaluation of attribution theory—Even though attribution theory is not strictly a motivation theory, it is viewed as a kind of motivation theory for the reason that it helps in understanding how people interpret their success or failure. This theory also emphasizes that organizations should first change the belief of the employees as to the cause of their success or failure before making changes in motivational tools and strategies. This theory also enables managers to understand why some people try hard to achieve success despite failure while others are not keen to persist with their efforts in the event of failure.[75]

However, this theory has a few weaknesses. For instance, it is difficult for the people themselves to understand the explanations of how they think of their success or failure. This theory fails to recognize the role of emotions in shaping individuals' belief about their success or failure.

Control Theory of Motivation

Control theory (also called negative feedback loop theory) of motivation was discussed by Lord and Hanges. This theory initially focused on the machine-based system; it was then modified to suit the human system of motivation. According to this theory, the human action and motivation is based essentially on the negative feedback loop. The feedback loop comprises a series of inputs and outcomes that typically function on a circular path.[76]

The basic assumption of this theory is that an individual's behaviour is controlled by a system under which his present condition (actual state of performance) is compared with the standard condition (desired state of performance). If there are any discrepancies (negative feedback) in the comparison between the current and desired conditions, necessary behavioural strategies within the system are adopted to reduce such discrepancies and bring performance back to standard.

This system is self-regulatory in the sense that the comparison and corrective actions are done as a part of the system itself. This theory aims at offering a viable model for the way the goals and feedback affect the behaviour and performance of people in their job.

Evaluation of the control theory—Control theory of motivation can facilitate the managers understand why people have goals, why they are motivated to achieve and why these goal should be dynamic. This is one of the few theories that talk more about an individual's self-regulation than external stimuli like goals and incentives.

The weakness of this theory is that it assumes that individuals know exactly what they should do when they receive a negative feedback. But there may be situations when individuals know their deficit but are not clear about what needs to be done to deal with it. Besides content and process theories, McGregor's theory X and Y and Ouchi's theory Z have made important contributions to the study of employee motivation. We shall now discuss them.

McGregor's Theory X and Theory Y

Douglas McGregor, in his book *The Human Side of Enterprises*, published in 1960, explains two different kinds of theories or assumptions about human behaviour. They are theory X and theory Y. Theory X holds a negative (traditional) view of the workers while theory Y holds a much refined and positive view of workers.

The scientific management school of thought inspired McGregor to develop theory X. This theory suggests that productivity could be increased through division of jobs into smaller units of work (tasks) and by assigning each worker a small range of well-defined tasks. The elements of these theories are:

Theory X—The general assumptions of this theory of workers are:

1. Workers have an inherent or natural dislike towards their job and they will avoid their job if it is possible for them.
2. Workers have little or no ambition in their work life and are not concerned about their career growth.

3. They tend to resist changes and also avoid responsibilities.
4. They are basically self-centred and do not care about organizational goals and objectives. In other words, their goals are contrary to the organizational goals.
5. They prefer to be led by others rather than lead others.
6. Workers in general are not intelligent and are mostly gullible or innocent.
7. Workers are generally poor decision makers.
8. They need to be monitored and controlled closely to make them work effectively.

The fundamental assumption of this theory is that people work only for money and personal safety and security. Theory X requires organizations to do the following to manage and motivate the workers and to increase productivity:

1. Minimizing the number of situations in which workers are required to make decisions by themselves.
2. Providing mainly extrinsic financial rewards to workers.
3. Monitoring the activities of the workers through tight or very close supervisions.
4. Imposing tight discipline and enforcing strict performance correction measures to encourage performance.
5. Conducting extensive training programmes to workers on how they should do their work.

In contrast to theory X, the assumptions of theory Y are positive about workers. McGregor developed theory Y after becoming aware of the flaws in theory X. We shall now discuss the assumptions of theory Y.

Theory Y—The important assumptions of this theory about workers are:

1. Workers enjoy their work if it can be as natural as playing or resting. Work may be a source of satisfaction for workers. They can perform jobs well without any threat of punishment.
2. Workers are self-directed and self-controlled in fulfilling the objectives to which they are committed. Workers not only accept responsibilities but also seek it under proper condition.
3. They are committed to their objectives if the rewards for performance fulfil higher order needs such as self-fulfilment needs.
4. Workers have the potential and inclination to grow within their present roles and, if possible, beyond it.
5. Workers have the capacity to find solutions to organizational problems using relatively higher degrees of creativity, ingenuity and imagination.
6. The goals of workers can be the same as those of the organization. The organizational (group) goals and individual goals are supplementary and not mutually-exclusive.
7. The intellectual potentials of human beings are only partially utilized under the conditions of modern industrial life.

Based on the assumption of theory Y, organizations should evolve a system that motivates and maintains the employees well. Such a system should ensure that:

1. Responsibilities are delegated to the workers, wherever possible.
2. Workers are adequately empowered to make decisions on their own.
3. Job enlargement techniques are used to ensure that jobs include whole and meaningful processes.
4. Workers are helped to align their personal goals with those of the organization well through constant guidance and training.

According to McGregor, employees can be intrinsically motivated to perform well only when their organization makes them less dependent on the managerial guidance and control. Hence, McGregor recommends that organizations adopt managerial techniques such as workers' participation in management, decentralization and delegation of authorities, job enlargement and team work to improve employee motivation. He also believes that there is little possibility for improving the relationship between management and workers in organizations that are guided by the philosophy of theory X. Table 14.2 shows a comparison of theory X and theory Y.

Table 14.2 Comparison of Theory X and Theory Y

Characteristics	Theory X	Theory Y
Management style	Autocratic	Democratic
General outlook of workers	Pessimistic	Optimistic
Skill levels of workers	Low	High
Mutual trust between the management and workers	Low	High
Attitude towards responsibility	Avoidance	Acceptance
Workers' likeness for the job	Low	High
Degree of delegation and decentralization	Low	High
Types of work to be entrusted	Repetitive work with narrow specialization	Works with the scope for creativity and promotion
Rewards	Lower need fulfilment (carrot and stick approach)	Higher need fulfilment
Job involvement	Low	High
Resistance to change	High	Low

Evaluation of McGregor's theory X and theory Y —McGregor's theory X and theory Y is rated as one of the best-known behavioural studies. McGregor's work is the foundation for introduction of several modern management concepts like job enrichment, self-managing teams, etc. However, it has a few limitations. For instance, theory X and theory Y are not "all weather" or "cure all" approaches since different tasks, problems and situations call for different managerial approaches. Certainly, different approaches are effective for different situations.[78] Even though McGregor was initially a strong supporter of theory Y, he subsequently softened his support after he personally experienced some of the frustrations related to the implementation of strong theory Y management assumptions.[79]

Theory Z

Theory Z was developed by William Ouchi in 1981. This theory is seen by people as an extension of McGregor's theory X and theory Y. But this theory has its roots in the Japanese management style and culture. Some view theory Z as a hybrid model which includes the best business practices and features of American as well as Japanese organizations. In other words, theory Z has many Japanese elements but reflects American culture.[80] Basically, theory Z attempts to provide a theoretical perspective relating to the "culture of the whole organization." This theory, based on a few assumptions, is mostly practiced in Japanese industries. The assumptions are:

1. **Life time employment for workers**—This theory tends to view job security as an important source of job satisfaction and motivation. The purpose of providing life time employment is to develop a sense of loyalty and commitment among the workers and also to fulfil the organizational goals efficiently.
2. **Slow evaluation and promotion**—Theory Z suggests that the performance of workers should be evaluated in a slow and steady manner on a long-term basis. Further, the promotion available to the workers should be few and far between in the work life of people. For instance, management must ensure that there is adequate gap between one promotion and another. Theory Z's slow promotion is different from the practices in western countries, where the performance of workers are usually evaluated after a relatively short period of time and promotions are also awarded within short spans of time.
3. **Consensual decision making**—Theory Z insists on the principles of collective decision making. According to this theory, management should not attempt to impose its decisions on the employees. Instead the management and groups of employees must collectively discuss and decide on the issues that affect the organization in general and employees in particular. Group of employees who are involved in decision making are differently called as quality circles, teams, etc.
4. **Non-specialized career path**—According to Ouchi, employees who continuously perform new tasks are normally more important, productive, and satisfied with their work than those who remain in one job.[81] Theory Z insists that each employee in the organization should have a clearly defined career path with suitable rewards and promotional opportunities laid out in advance.
5. **Individual responsibility**—This theory suggests that employees should work together (collectively) towards the achievement of well-defined goals but the final responsibility should rest only with the individuals. This theory thus proposes a collective decision-making and team approach to goal accomplishment with emphasis on individual responsibility at the employees' level.
6. **Holistic concern for the workers**—This theory suggests that the organization must adopt a "holistic" approach in its dealings with employees by acknowledging that employees exist with ordinary demands of all workers in the society. In other words, employees have needs beyond the work setting that include but are not limited to, for instance, educational, personal and family needs.
7. **Implicit informal control with explicit formalized measures**—This theory recommends implicit, informal control but with explicit formalized measures. This is a midway approach between the explicit, formalized control measures of

American organizations and the implicit, informal control measures of Japanese organizations.

Evaluation of theory Z—Theory Z of Ouchi aims at creating a strong *esprit de corps* (a sense of unity) among the employees. Such unity is expected to lead to the formation of highly cohesive groups within the organization. This theory thus believes in converting the whole organization into one highly cohesive group. It insists on the development of "clan organization." Clan organizations (similar to kin network but not meaning blood relations) are highly useful in complex and highly uncertain situations, where any measures of external control are not effective.

However, the strength of this theory becomes its weakness too. For instance, this theory assumes the presence of a "homogenous internal organizational culture" and decision making by consensus.[82] This assumption is actually in conflict with the concept of cultural diversity and respect for divergent views, opinions and values.

Employee Engagement

Introduction

Employee engagement is simply the integration of motivation, performance, and business. It refers to physically, cognitively, and emotionally connecting employees with their work roles. Employee engagement is a positive, fulfilling, work-related state of mind that is characterized by vigour, dedication, and absorption.[83] A fully engaged employee will have a positive state of mind and genuine willingness to contribute to the success of the organization. The engaged employee will usually have a mix of job satisfaction, organizational commitment, job involvement, and feeling of empowerment. Through employee engagement initiatives, management can achieve improved performance and productivity.

According to a global workforce study, nearly two-thirds (65%) of more than 32,000 full- time workers participated in this study are not highly engaged.[84] Of late, organizations began to view employee engagement as an important tool for business survival and success. This is because many employers feel that employee engagement initiatives can help them to improve the people's level of engagement. It is also seen as the replacement for job satisfaction and a key measure for the success of an organization. The uniqueness of employee engagement initiatives is that (1) it is measurable; (2) it can be correlated with performance; and (3) it is not identical for all jobs as different jobs require different kind of engagement strategies.

Factors Determining the Level of Engagement

The level of employee engagement is determined by various job and organization-related factors. These factors are as follows:

1. Nature of job: When employees feel that their job can give them clear and measurable return for their efforts, they are most likely to be engaged more in their work.
2. Trust and confidence: When employees have high level of trust and confidence in the organization and its leaders, the level of employee engagement in such organization is bound to be more.
3. Communication: Frequent and purposeful communication between the management and its employees will lead to better employee engagement. For instance, when managers clarify their expectations about employees and also provide them unbiased performance feedback, employees will have better involvement in their work.
4. Contribution to organizational growth: The presence of ability to understand how their work contributes to the accomplishment of organizational goals will improve employees' engagement in the work. Generally, people would like to know whether their job performance contributes to the organization's success in a meaningful way.
5. Opportunity for growth: When employees perceive reasonable opportunities for growth in their work and within the organization, their involvement in the job will be higher.
6. Recognition and appreciation: When managers quickly recognize and appreciate employees for their good performance, the employee engagement will be more.
7. Pride and honour: When employees get pride and honour from the job and their association with the organization, the level of engagement will be more.
8. Control over job: When employees perceive that they have control over pace and flow of their job, their involvement in the job will be higher.
9. Collaboration: When there is a better scope for collaboration among employees in the work setting, their level of engagement will be generally more.

Employee Engagement Process

Each organization can have its own employee engagement strategy based on its characteristics and uniqueness. They can also adopt the following steps to develop engagement plans for their employees:

1. Conducting employee engagement survey to identify the existing level of engagement in the organization.
2. Specifying the vision, mission, and key goals of the organization before determining the employee engagement strategies.
3. Deciding the employee engagement strategies in alignment with the goals and objectives of the organization.
4. Developing specific goals and measures of success for engagement strategies designed for the employees.
5. Outlining the specific actions need to be taken to implement the employee engagement strategies.

Prerequisites for Successful Employee Engagement

To be successful in their employment engagement initiatives, organizations need to under- take the following measures:

1. Employing right managers: Managers play a key role in the successful implementation of employee engagement strategies. In this regard, it is important for organizations to choose managers with right talent for supporting, empowering, and engaging their staff.
2. Designing realistic engagement goals: Managers must always consult their staff before determining the everyday activities. Managers can discuss engagement programmes with the employees during their weekly meetings, planning sessions, one-to-one meeting, etc.
3. Training the managers: Managers are mainly responsible for their employees' engagement levels. Whenever necessary, organizations can undertake need-based training programmes to help their managers in formulating employee engagement plans.
4. Connecting with employees: Every employee has different needs and talent. Therefore, it is essential for managers to know thoroughly the unique talents of each of their staff before developing engagement plans.
5. Conducting employee engagement survey: Organizations should conduct employee engagement survey at regular interval to know the existing level of employee engagement.

Summary

1. Motivation may be defined as forces that originate internally or externally in individuals and drive them to voluntarily choose a course of action that produces a desired outcome.
2. Intrinsic motivation and extrinsic motivation are two forms of motivation. Intrinsic motivation refers to the drive or desire that arises from within an individual to do something or accomplish certain goals. When the drive to do something or accomplish certain goals emerges from outside of an individual, it is called extrinsic motivation.

3. Approaches to motivation are compensation approach, job design approach, organizational culture approach and workplace relationship approach. The compensation approach attempts to offer extrinsic motivation to employees while the job design approach looks to increase their intrinsic motivation.
4. Job design strategies that offer intrinsic motivation to employees include job enrichment, self-managing teams, job rotation, job reengineering, job enlargement, participative management, peer performance review and high performance work design.
5. Factors influencing work motivation are personality, self-esteem, intrinsic motivation tendency, and need for achievement.
6. The steps in the motivational process are experiencing unsatisfied needs, searching for ways and means to satisfy needs, selecting goal-directed behaviour, implementing the selected behaviour and experiencing rewards or punishments.
7. Theories of motivation are broadly classified into content theories and process theories. Content theories focus on the employees' personal needs that they wish to satisfy through work. Process theories explain how various variables jointly influence the amount of efforts put in by the employees.
8. The content theories are hierarchy of needs theory, two-factor theory, ERG theory and acquired needs theory.
9. Process theories are equity theory, Vroom's expectancy model, Lawler's motivational model, goal-setting theory, reinforcement theory, social cognitive theory, attribution theory and control theory.
10. McGregor's theory X holds a negative (traditional) view of the workers while his theory Y holds a much refined and positive view of workers.
11. The important assumptions of theory Z are life time employment for workers, slow evaluation and promotion, consensual decision making, non-specialized career path, individual responsibility, holistic concerns for the workers and implicit informal control with explicit formalized measures.
12. Employee Engagement is the integration of motivation, performance, and business. Factors determining the engagement are: nature of job, trust and confidence, communication, contribution to organizational growth, opportunity for growth, recognition and appreciation, pride and honour, control over job and collaboration.

Review Questions

Short-answer questions

1. State the meaning and characteristics of motivation.
2. Explain briefly the importance of motivation.
3. Differentiate between intrinsic motivation and extrinsic motivation.
4. Write a note on compensation approach to motivation.
5. What are the important job design strategies?
6. Give a brief account of the ERG theory of Alderfer.
7. State the importance of the social cognitive theory.
8. What do you mean by attribution theory?
9. Present an overview of theory Z.
10. Write a note on the control theory of motivation.

Essay-type questions

1. Critically evaluate the approaches to motivation with necessary examples.
2. Enumerate the factors influencing employee motivation in business organizations.
3. Discuss in detail the steps involved in the motivational process.
4. Critically examine the hierarchy of needs theory of Maslow.
5. Explain Herzberg's two-factor theory with appropriate examples.
6. Evaluate the strengths and weak nesses of McClelland's acquired needs theory.
7. Illustrate with example the equity theory of Stacy Adam.
8. Describe the Victor Vroom expectancy model of motivation.
9. Examine the role and relevance of Porter and Lawler's motivational model.
10. Enumerate the employee engagement process with example.
11. Describe the assumptions of McGregor's theory X and theory Y.

Case Study

Plight of an Intelligent Management Trainee

X-Look Company is a fast-growing textile company with an annual turnover of Rs 1,200 million and has a strong workforce of 950 employees. The HR policy of the organization provided clear guidelines to the HR department regarding how different HR functions are to be performed. As regards the recruitment of managerial people, the policy recommended direct recruitment for entry-level categories like junior managerial positions preferably through campus interviews while the suggested course for filling the senior managerial positions was through internal promotions.

Mr. Malhotra, a topper in the production engineering discipline, was chosen as a management trainee by the company in one of its campus interview programmes. As per the terms and conditions of his employment, Malhotra was to undergo on-the-job training for a probationary period of one year. His eventual appointment as an assistant manager in any one of the engineering departments would to be conducted at the end of the probationary period. He was posted to the Research and Development (R&D) department and was reporting to Mr. Ravi Shankar, the head of R&D. Malhotra was keen to excel in the job and worked with zeal and vigour. Obviously, his behaviour and performance was widely appreciated by many in the firm including his own peers in the training programme. Mr Ravi Shankar was also impressed by Malhotra's smartness, commitment and contribution. Thus, Ravi Shankar was willing to recommend Malhotra's name for any of the important assignments of the company befitting his knowledge and sincerity after he completed his training period. Quite unexpectedly, the post of design manager in the firm suddenly fell vacant due to the untimely demise of its incumbent. Mr. Ravi Shankar strongly believed that Malhotra would excel in this post given his knowledge, skill and creativity despite his lack of experience and thus, strongly favoured him for the post. In this regard, he sought an exemption from the existing HR policy which stipulated that the trainees ought to be considered only for assistant manager cadre after they complete their training programme successfully. Further, he also requested the management to instruct the HR department to conduct an immediate evaluation of the training performance of Malhotra to make him available for the vacant position on time.

The management obliged Ravi Shankar and instructed the HR department to conduct the post-training evaluation for Malhotra and send a report in this regard to it at the earliest. The HR department promptly conducted the evaluation and forwarded its report. As the report was very positive, management moved in quickly to appoint Malhotra as the design manager by treating his case as an exceptional one.

However, the decision of the management did not go down well with other employees including management trainees as they began to feel that Malhotra was unduly favoured. Even those people who earlier appreciated Malhotra's performance and behaviour soon changed their mood and turned against him. Consequently, they began to express their dissatisfaction in all possible forms and forums. Management could clearly discern the general mood of the employees and became anxious over the negative fallout of its decision. It has also witnessed a perceptible decline in the term spirit, interest and commitment of the employees, in general, and the management trainees in particular.

With the mounting criticism of its action, the management began to think that it has no choice other than back-tracking on its own decision. After dilly-dallying for some time, the management finally decided to shift Malhotra to a lower cadre and keep him there for some time before being elevated again to some higher position. However, the news of his imminent removal from his new position completely demoralized the young and energetic Malhotra and he began to wonder how his removal would be viewed and interpreted by other trainees. To avoid his unceremonious exit from the present post, Malhotra resigned his job voluntarily and quit the firm abruptly.

Malhotra, a brilliant engineering graduate, who joined the organization with high hopes and proved himself an excellent employee during the training, now finds his career in shambles. Sadly, the management of X-Look also lost an efficient and enterprising employee. Looking back at the whole episode, the company realized that it had not properly considered the human element involved in all its decisions concerning Malhotra and was merely guided by the mechanical elements.

Questions

1. According to you, what is the root cause of the problem in the Malhotra episode and who is to be blamed for his present troubles?
2. If you had been Malhotra, what would have been your response to these development?
3. What steps should the management take to avert the recurrence of such situation in the future?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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CHAPTER 15

Teams and Teamwork

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning and characteristics of teams
2. List the types of teams
3. Enumerate the stages in team formation
4. Discuss the characteristics of effective teams
5. Understand the benefits and problems in team building

India's Inspirational Managers

Y. C. Deveshwar is the chairman of ITC Limited, one of India's leading private-sector companies with a turnover of USD 7 billion. Deveshwar has been ranked seventh by the *Harvard Business Review* among the best performing CEOs in the world. ITC, under his leadership, believes in the core governance principles of trusteeship, transparency, empowerment and accountability, control and ethical corporate citizenship. Deveshwar's ITC insists that the basic attributes essential for building a wholesome work environment are excellent team skills, leadership, integrity, intellectual rigour, a will-do attitude and high energy. According to Deveshwar, "People will work as a team because the outcome is beneficial for everybody and everybody has an inherent need apart from fulfilling self-need to do something for others." As a proven team player, Deveshwar plays a vital role in several important team assignments. Incidentally, he is a director on the central board of the Reserve Bank of India. He is also a member of the committee for reforming the regulatory environment for doing business in India constituted by the Government of India. Keeping the leadership and team skills of Deveshwar in the background, let us now discuss teams and teamwork.

Introduction

In the recent past, teamwork has emerged as an alternative to any highly specialized individual effort. When a group of people comes together to accomplish a common goal that is too big in scope to be achieved individually, such groups are called teams. Team work enables individuals to do together what they may not be able to achieve by themselves. In a team, each member has a role to perform and these roles are normally interdependent in nature. Team and teamwork are closely-related concepts.[1] Teamwork is an action. It is actually something people do and they do so because they share a common goal, mission or vision. Teamwork gained in importance in organizations only after business managers saw tangible benefits of effective teams. The changing characteristics of the workforce, the intensified global competitions and the growing importance of technology pushed organizations to try team approaches to accomplish their goals in a cost-effective manner. For any group or team to perform effectively, a large amount of efforts goes into its maintenance, renewal and innovation activities.[2]

In organizations, certain actions are typically considered as teamwork. For instance, activities such as: (i) sharing expertise with others, (ii) recognizing the efforts of others, (iii) providing assistance and advice to others when they require it, (iv) offering constructive feedback to others, (v) modifying behaviour based on the feedback of others, (vi) working towards solutions that are acceptable and beneficial to the whole group, (vii) sharing of ideas, (viii) demonstrating faith in others' ideas and skills, are generally viewed as teamwork in any organization.[3] Organizations generally use the term team-building for rebuilding and helping groups to achieve an optimum level of effectiveness and efficiency. Team-building exercises are performed by almost all types of organizations and it is usually an unending process. Team-building approach to managing organizations has diverse and significant impacts on organizations and individuals.[4]

Definitions of Team

Definitions of team focus on the interactions among people within a group to achieve some common goals.

Let us now look at a few important definitions.

"A team is a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable."—Katzenbach and Smith[5]

"A team is defined as two or more people who interact and influence each other toward a common purpose."—James Stoner[6]

"Teams are groups of two or more people who interact and influence each other, are mutually accountable for achieving common goals associated with organizational objectives and perceive themselves as a social entity within an organization."—M. E. Shaw[7]

"A team is defined as a group in which members work together intensively and develop team specific routines to achieve a common group goal."—George Jennifer[8]

"A team (group) is defined as two or more interacting and interdependent individuals who come together to achieve specific goals."—Stephen P. Robbins[9]

"A team (group) is defined as two or more freely interacting individuals who share collective norms and goals and have a common identity."—Kincki[10]

We may define team as a combination of two or more people engaged in the execution of common goals by influencing and interacting with one another.

Characteristics of Teams

Based on the above definitions, we can list out the characteristics of team as follows:

- **Two or more people**—A team should have two or more people and there should be free interaction among them. A mere collection of people without any interaction cannot be considered as a team.
- **Shared perception**—Each individual should perceive himself/herself to be a part of the team. Similarly, other members should also perceive him/her as a member of the team
- **A common purpose**—A team should have one or more common goals and the members should agree to work in a coordinated manner to achieve those goals**.**

- **Collective accountability—**Members of a team must accept collective accountability for the results of teamwork.
- **Stable structure—**The pattern of relationships established among members is known as group structure. Even though the pattern tends to change according to the nature of the task or the stage of group, it should be relatively stable.

Team *vs*. Group

Some management experts view team and group as interchangeable terms to reflect reality of the present day organizations.[11] Some others do not agree with this view and claim that it is wrong to use these two terms interchangeably. For instance, Willcocks and Morris observe that “teams have to work together and cooperate to achieve a common aim, while groups don’t.”[12] Similarly, Katzenbach and Smith, after studying different kinds of teams, assert that “the successful teams tend to take a life of their own.” We shall now look at a few differences between team and group in Table 15.1.[13]

Related Terms

Team norms—Team norms refer to the expectation of members of how they and the other members will behave as a team. Each team has a set of norms which is an implied code of conduct regarding what is acceptable and what is not acceptable member behaviour. Team norms can be oral or written, implied or explicit, negative or positive, applied to all members or only to certain ones. The different types of team norms are performance norms, ethics norms, organizational and personal pride norms, high achievement norms, support and helpfulness norms and improvement and change norms.[14] Members generally learn the norms of team through:

1. The explicit statements of the team leaders, supervisors, co-workers, etc.
2. Significant or critical events in the history of the team.
3. The initial or first behaviour pattern witnessed by them.
4. The continuation of the old or “carry over” behaviours (learnt in past situations) in the new team environment by members.[15]

Table 15.1 Differences Between Team and Group

Characteristics	Team	Group
Decision making	Predominantly consensus-based.	Usually has majority and minority viewpoints.
Clarity of members' roles	Members' roles are clearly defined and communicated to all members.	Generally, there is less clarity regarding the members' role and tasks.
Acceptance of common objectives	Generally, there is a better convergence of the members' views and their understanding of the common objectives.	Members of the group may not always hold similar views about or accept the common objectives.
Disagreements in discussions	More efforts to settle the differences constructively and preserve the team and its harmony.	Comparatively lesser efforts to maintain the groups.
Freedom of expression	Typically, better freedom for free and frank exchange of ideas, suggestion and opinions.	Comparatively, lesser freedom for expression of ideas, opinions, etc.
Accountability	Team as a whole is accountable.	Holds individuals accountable.
Leadership	Generally leadership roles are shared or rotated.	Has designated strong leaders.
Delegation	Members deliberate, decide and then share the work.	Members discuss, decide and then delegate the work to individual members.

Team cohesion—Team cohesion is the degree of attraction members have towards the team and also their inclination to remain as members. Team cohesiveness indicates how much influence the team has over its individual members. When the cohesiveness is more in a team, the norm violations by members are generally less. Team cohesiveness is normally influenced by factors like team size, member similarity, member interaction, degree of difficulty in entry, success of team and external environment including competition and challenges.[16]

Team interaction—Team interaction is actually a process by which the members of a group exchange verbal and non-verbal messages in an attempt to influence one another.[17]

Team-building—Team-building refers to the formal activities aimed at improving the functioning of a team.

It also involves the process of reshaping the team norms and reinforcing team cohesiveness. Team-building involves the application of experiential learning techniques, such as interpersonal trust exercises, conflict role-play sessions, competitive games that aim for better cooperation, improved communication and less dysfunctional conflict. The four main types of team-building are: (i) goal setting (clarifying the team performance goals), (ii) role definition (clarifying the members' perception of their own and other members' roles), (iii) interpersonal processes (conflict management and rebuilding mutual trust and cooperation among members) and (iv) problem solving through the decision-making process.[18]

Team effectiveness—Team effectiveness includes the ability of the team to accomplish its goals successfully, fulfil the members' desire and ensure its survival.

Team interdependence—Team interdependence means the extent to which members of a team depend on each other for information, resources or ideas for completing their tasks or goals. It depends on the degree to which members of the team (i) share the common inputs to their individual tasks, (ii) interact among themselves while performing their teamwork or (iii) divide the outcome (rewards that are mostly decided by the collective performance) among themselves. Teams are affected by three types of interdependences. They are:

- **Pooled interdependence**—Team members are largely independent of one another while doing their work. They may merely share some common resources available to the team like secretary's services, a machine, etc. This type of team usually has the lowest form of interdependence.
- **Sequential interdependence**—The output of one team member becomes the input for another member. Generally, there is a high level of interdependence in this type of team as performance of one team member will affect the performance of other team members. Assembling units of automobile units mostly form teams of this nature.
- **Reciprocal interdependence**—The output of the first member becomes the input of second member of a team. Again, the output the second member becomes the input of the first member. This kind of interdependence is often seen in knowledge-based works.[19] The highest level of interdependence exists in this type of team.

Team trust—Team trust refers to the positive expectations people have about others in their team, especially in high risk situations. Basically, the relationship among team members depends to a great extent on the degree of trust. Trust in relationship involves belief and conscious feelings regarding the relationship with other members.[20] There are three reasons for people to trust others in their team. They are:

- **Identification-based trust**—It refers to the trust based on the mutual trust and common understanding (like similarity in thinking, acting, feeling, etc.) among the members.
- **Knowledge-based trust**—It refers to the predictability of other members' behaviour in the group. It also means the trust in the ability and competence of other members in the team.
- **Calculus-based trust—**It refers to the logical calculation that other members of the team will act or behave correctly because they know that they will face punishment (sanctions) if their actions violate realistic expectations. Since the calculus-based trust is based on negative deterrence, it cannot help in improving team members' interpersonal relationships.[21] Box 15.1 outlines the team initiatives of a software company.

Box 15.1
Characteristics of Team Leaders of Cybersoft India

Today, teams have become the essential prerequisite for the success of organizations. Many jobs and projects are becoming more and more complex, less time-bound, and global in scope. These factors are making it increasingly difficult for one person to perform a single job. Contemporary organizations, hence, use teams as effective substitutes for executing such projects. However, each organization expects its team members, especially the leaders, to possess certain characteristics. Let us now see the characteristics of the leaders of the teams at Cybersoft India for executing specific projects.

Cybersoft India is a provider of IT staffing and IT application solutions and services. The core project group of this company normally consists of five members and is led by a project manager. Any project team leader of Cybersoft should have characteristics such as the following: (i) strong sense of team, (ii) highly motivated, (iii) highly skilled with cross-functional skills, (iv) informal communication within the team and (v) well-versed development.[36]

Types of Teams

There are many types of teams in every organization. Each team will serve certain purposes and also contribute to the overall effectiveness of the organization. As shown in Figure 15.1, these teams are broadly classified as formal teams and informal teams. There are certain other kinds of teams that possess the characteristics of both formal and informal teams. Super teams or high performance teams and self-managed teams belong to this category. We shall first look at the kinds and characteristics of formal and informal teams.

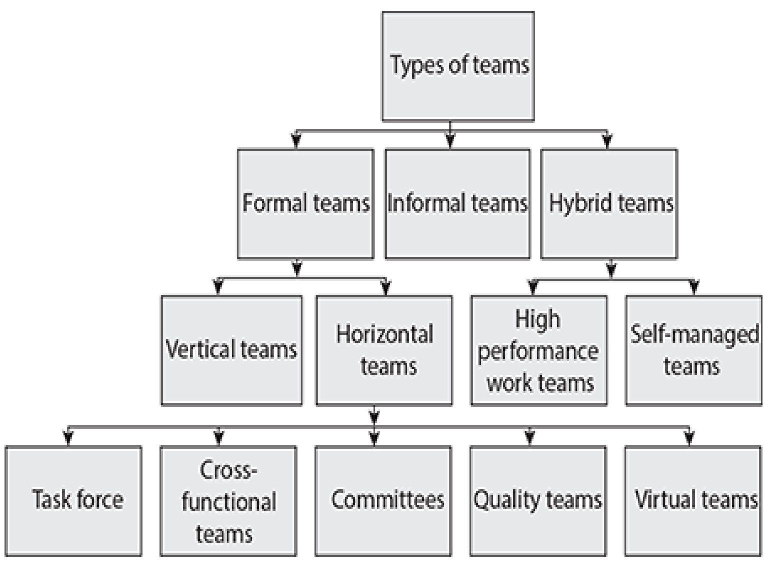

Figure 15.1
Types of Teams

Formal Teams

When teams are deliberately formed by managers to help the organization fulfil its goals and plans, then they are called formal teams. The goals of formal teams are generally decided by the needs of the organization. Understandably, formal teams are official teams and are designated to serve specific purposes. These teams are created as a part of an organization's formal structure.

Formal teams are generally viewed as the building blocks of an organization. They can function on a permanent or temporary basis depending on their objectives of existence. The typical characteristics of formal teams are as follows:[22]

1. Formal teams' activities are generally governed by the formal rules and regulations, policies and procedures or bylaws of the organizations.
2. Formal teams have distinct and unique member roles.
3. In any formal team, members have specific tasks that are to be performed and measured.
4. Formal teams typically operate within a definite organizational context.

Vertical and horizontal teams are two common forms of formal teams, which typically represent the vertical and horizontal structure of the organization. We shall now briefly discuss these two types of formal teams, namely, the vertical and horizontal teams (Figure 15.2).

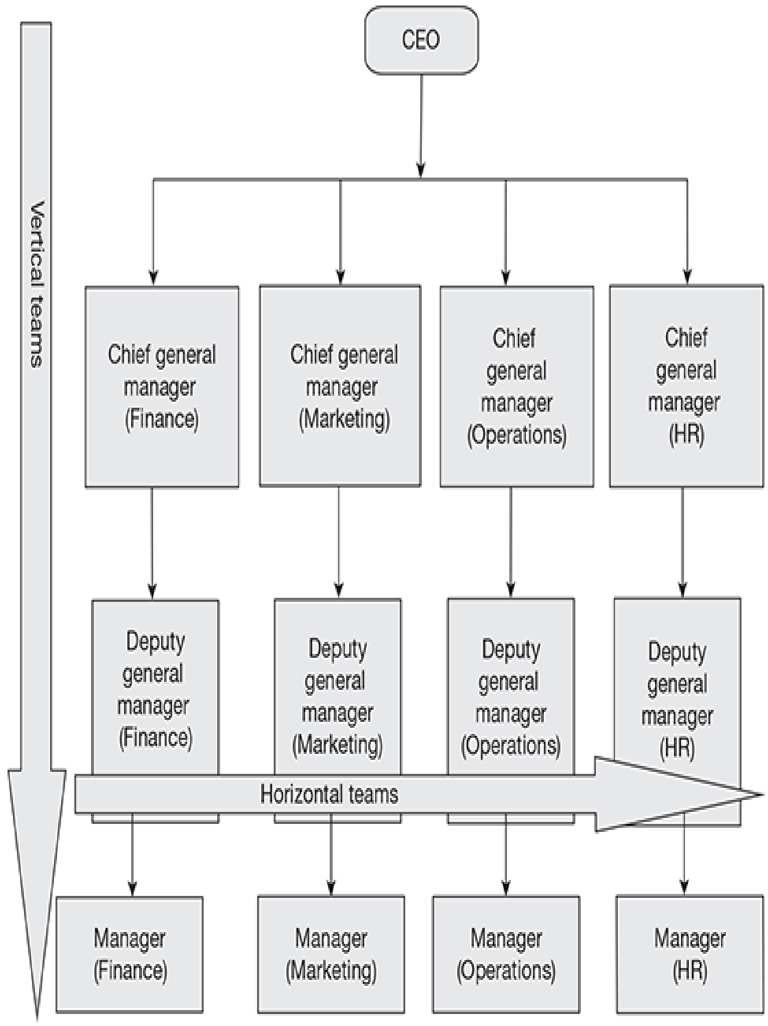

Figure 15.2
Vertical and Horizontal Teams

Vertical teams—A vertical team is also called a command team or functional team. This team is typically composed of a manager and his/her subordinates in a formal chain of command. In vertical teams, employees report directly to their managers. Normally, a vertical team includes a single department, say, the production department, the human resource department or the finance department. A vertical team may include two to three or even four levels of management.[23] Organizations create vertical teams to facilitate members' interaction, joint activities and organizational goal accomplishment.

Horizontal teams—Normally, a horizontal team includes employees belonging to same hierarchical levels but chosen from different departments (or fields of expertise). These teams are generally created to meet the specific objectives or tasks and may be dissolved once these objectives or tasks are completed. The important types of horizontal teams are (i) task force (ii) cross-functional teams (iii) committees (iv) quality teams and (v) virtual teams. We shall now briefly discuss each of these teams.

- **Task force**—The task force (also called project teams) are created for certain specific purposes. For instance, a task force may be created to develop a new product in a manufacturing organization or to identify a new market in case of a trading organization. Task forces are temporary teams as they exist only till they achieve the purpose for which they are created. Basically, task forces include members with dissimilar skills and drawn from different departments or units of the organization. A successful task force should have well-defined team goals and member roles, effective communication channel and clear structure, and efficient performance management system. Product designing and problem solving are some of the common tasks of the multi-skilled teams.
- **Cross-functional teams**—These teams intend on solving the problems of the organization by harnessing the knowledge of people drawn from different functional areas. The rationale behind the formation of cross-functional teams is that the tasks are best served when several functional departments are involved and different views are considered. Cross-functional teams usually have longer life than the task forces even though both focus on effective goal fulfilment. When an organization forms a cross-functional team to enhance customer satisfaction, it may involve people from the production department, marketing department, human resource department and finance department.
- **Committees**—When teams are formed to deal with recurring problems and decisions, they are called committees. Committees can be classified as standing committees and ad hoc committees. Standing committees are permanent in nature even though the membership of the committee may be rotated periodically. Ad hoc committees are temporary committees that are formed just to do a specific job. Ad hoc committee is normally disbanded after the job is over. A grievance committee that handles employees' grievances and disciplinary committee that concentrates on the disciplinary issues involving employees are example of committees. Advisory councils, work councils and reviews panels are other forms of committees.
- **Quality teams—**In recent decades**,** organizations are establishing quality teams or quality circles to monitor and ensure quality in every aspect. Normally, quality circles which consist of volunteers from the same or related work field meet and discuss the quality issues affecting their units, departments or organization. They also offer suggestions to solve quality-related problems and achieve quality improvements. For instance, organizations may establish quality assurance teams to coordinate with the employees, customers and vendors to guarantee quality of goods and services by constantly identifying and resolving quality issues.
- **Virtual teams**—When physically separated organizational members of teams are linked through information technology to achieve certain common goals, then these teams are called virtual teams. These teams usually operate across time, space and organizational boundaries with the aid of technology. In virtual

teams, members rely on e-mails, fax, websites, video conferencing [24] and wide area network to conduct their meetings and conferences. Virtual teams can do all the activities of other teams, except that there will be no face-to-face discussions. When compared with conventional teams, virtual teams should possess the following characteristics to be successful in their initiatives: [25]

1. Virtual teams require several communication channels to effectively compensate the absence of face-to-face communication.
2. Virtual teams are generally more effective when they are smaller in size.
3. Cross-cultural awareness should be high among the members of virtual teams since they often deal with culturally-diverse groups.
4. Members must be well-acquainted with the handling of information technology tools.
5. Typically, virtual teams are more efficient when they handle structured tasks than vague and complex tasks.

Informal Teams

Informal teams or groups are not directly established by the organizations but form naturally in many organizations to satisfy the personal and social needs of its members. Informal teams are spontaneously formed as a result of some common interest among various people working in an organization. They are unofficial groups which emerge within organizations to serve certain special purposes. Generally, the members of informal teams will have lower levels of interdependence than formal teams due to a less rigid organizational structure. [26] Informal teams play a unique role in organizations, and these roles may be positive or negative.

The fundamental characteristics of informal teams are that: (i) there is a general tendency among the members to be very flexible and adaptable, (ii) these teams do not adhere to any particular structure or formation and (iii) members may tend to move in and move out purely on an informal basis.

A few examples of informal groups are:

1. Friendship groups comprising people with natural affinities or liking for one another.

2. Interest groups including people who have a common job-related or non-job related interest or problem to be resolved.
3. Reference groups that individual employees use as a point of reference in evaluating their actions, preferences, behaviour and judgements.[27]

The major functions of any informal groups are as follows:[28]

1. Informal groups attempt to keep up and reinforce the common values and norms held by the members.
2. They tend to provide a feeling of social fulfilment, status and protection.
3. They act as a forum for the members to exchange their views on matters that affect their interest in an informal manner.
4. These groups can assist the members in solving their problems. For instance, a member of this group can assist another member struggling with production-related problems by counselling or training.

Hybrid Teams

We shall now discuss hybrid teams that contain the characteristics of both the formal and informal teams.

Super teams or high performance work teams— These are the new types of teams that possess the characteristics of both the formal and informal teams. High performance teams are developed to produce desired effects on the organizational productivity and performance. These teams have two distinct characteristics. They are: (i) individual members of the team willingly commit to a very high level of effort and (ii) these teams are generally capable of solving problems that are beyond the capability of even the most talented individuals. Certainly, well-managed super teams are so efficient and independent that they can arrange their work schedule, fix their productivity levels, buy their own equipment and supplies, enhance product qualities and relate well with the customers.

It is easier to understand high performance teams, when it is explained using sports terminology. “Teams that play well as a team are far better than a team that has one or two star players but do not know how to play together well as a team.”[29] Effective super teams are created in an organization to achieve high levels of performance. The key characteristics of high performance work teams are as follows:[30]

- Presence of highly-skilled, dynamic, coordinated and loyal employees.
- Existence of flat, flexible and modern management.
- Capability of preserving the experienced and skilled employees for a long time.
- Existence of harmonious relationship between the management and the employee and their unions.
- Presence of full-fledged self-directed teams with adequate authority, responsibility and accountability.
- Existence of supportive rather than autocratic style of leadership and management.
- Payment system that counts on team performance but gives due importance to the skills of the individuals.

It is to be understood clearly that development of well-functioning super teams is often a time-consuming and complex process for many organizations. Still many managerial experts view super teams as one of the greatest business innovations to happen in the 1990s. The oil exploration company, ONGC, keeps the promotion of high performance work system as one of its core HR objectives.

Self-managed teams—A self-managed (also called self-directed) team is a team of employees who combine themselves to work towards common goals without any formal external supervision. The advantage of a self-managed team is that its members take all the decisions on their own and have complete liberty. Their decisions are time-bound and superior. Self-managed teams are usually entrusted with the overall responsibility for the accomplishment of work. They enjoy autonomy in decision making on matters involving when and how the work is done. They are given adequate freedom to determine the mode of execution by planning the pattern of work, distribution of assignments, rest breaks, performance evaluation, and so on. However, accountability for the outcomes should be clearly defined. This method is appropriate for group activities. Self-managed teams are capable of providing intrinsic motivation as the team members normally enjoy better work autonomy and also control their own work.

Self-managed teams require a lot of groundwork to ensure the success of the whole process. The preparatory requirements for self-managed teams are as follows:

- **Work mapping**—This involves defining the boundaries of the teams clearly in terms of authority, responsibility and accountability.

Each team should have a clear and distinct identity, purpose and sphere of activities within the organization.

- **Determining the size of the team**—The size of the team contributes critically to the success of the self-managed team. The team should be neither too large nor too small. It is essential to identify the right size for the team. There are various factors that influence the decisions relating to the size of the group. They are the nature of process and products, the physical distribution of activities, the style of leadership, and the rate of delivery.
- **Leadership development**—Effective leadership is vital to the success of self-managed teams. The leaders of the teams should be given training in leadership tasks, leadership styles, communication, motivation and other necessary leadership qualities.
- **Fixing the team norms**—It is essential for each team to develop rules and regulations to govern the behaviour of its members. It should have a categorical list of dos and don’ts for its members and they should not be allowed to misuse their authority. The teams should have perfect clarity on matters like recruitment, training, discipline, resource management and financial budgets.

Box 15.2
Employee Empowerment through SMT at Tata Marcopolo Motors

Since the 1960s, companies have begun to use self-managed teams in large numbers after tasting successes in their initial efforts. Today, companies include self-managed teams within their organizational structure to achieve increased cost savings, productivity, quality, innovation, customer service and profitability. However, creating a self-managed team does not mean the grouping of highly-talented and competent people alone. It also involves giving the members clear and unambiguous responsibilities, goals, targets, parameters, milestones, deadlines, authority, accountabilities and rewards. The successful implementation of self-managed groups at Tata Marcopolo Motors (TMML) is a case in point.

As a part of its employee engagement initiative, Tata Marcopolo Motors (TMML) has launched a self-managed team (SMT) at its Dharwad plant on 26 De-cember 2011. The purpose of introducing SMT in this company is to ensure employee empowerment at the grassroots level, improve employee morale, increase efficiency and a culture change in the overall approach. This company also views SMT as an effective work practice to achieve desired productivity and performance levels.[37]

Organizations get several advantages by forming self-managed teams. They are: (i) the presence of a learning organization, (ii) self-motivated employees with a high level of intrinsic motivation, (iii) cost-effective accomplishment of targets, (iv) the decentralization of authority and responsibility and (v) focus of the top management on non-routine tasks as it is relieved of routine activities. Box 15.2 outlines the self-managed team (SMT) initiatives of a private-sector automobile company.

Stages in Team Formation

It is very rare for a group to become efficient and cohesive from the moment its members first meet. Group formation is almost a process involving several stages. According to Tuckman and Jensen, a small group goes through five stages before it becomes complete. As shown in Figure 15.3, the five stages are: (i) forming, (ii) storming, (iii) norming, (iv) performing and (v) adjourning. Let us now discuss each of these five stages.

Forming

This stage is also called the orientation and acclimatization stage. In this first stage, people join the group and become familiar with one another. Members get to know what the acceptable behaviours of this group are. But they are unsure about their role in the group because the group's structure, purpose and leadership remain undefined and unclear. During this stage, communications are generally tentative and polite. Further, leaders are active and the members are compliant. Once the members overcome their initial inhibitions, they begin to exchange information about themselves and their goals. They also attempt to relate themselves to the group and other members. Further, members engage in self-disclosure by revealing information about themselves in conversations because they realize that others in the group are forming an impression of each other.[31] This stage becomes complete after members start to view themselves as a part of a group.

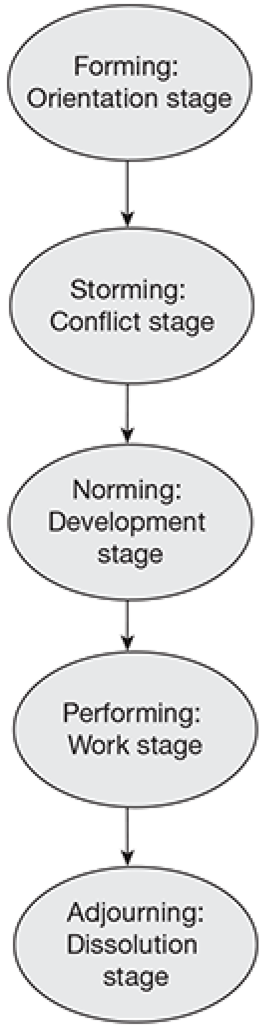

Figure 15.3
Stages in Team Formation

Storming

This stage is also called the conflict stage. In this stage, conflicts within the team arise due to the differences in the individual personalities of the group members. The conflicts normally occur over the goals and structure of the group. Generally, there will also be disagreement and dissatisfaction over the procedures. Members may even turn hostile and there may even be polarization among members as individuals try to assert their individual personality. They also usually compete for leadership, authority and prestigious roles with other members in the group. At this stage, members normally choose between fight (challenging leader's decision and authority) and flight (minimizing the frequency of contacts with the leader). This stage becomes complete once the agreement on the group's direction, goals and hierarchy of leadership are established.

Norming

This stage is called structure development stage. Once the conflicts are largely resolved, teams become relatively more organized, unified, stable and cohesive. Team members normally revise their initial impressions about one another and tend to be more positive about their teams. At this stage, group unity becomes stronger and more visible as members agree on the roles, goals, relationship pattern and standards of behaviour. Members develop an intimate relationship as the group gets ready to work together. This stage becomes complete once the members agree on procedures and a group structure is created.

Performing

This stage is also called work stage. After the group structure has been put in place, members begin to work towards goal accomplishment. They actively engage themselves in decision making and problem solving. Members now use the group structure effectively to achieve group dynamics and complete the task at hand. This stage is generally characterized by high task orientation, mutual cooperation and positive interpersonal communication. It is to be understood that not all groups may move through the forming and storming stages to reach the performing stage. This stage is completed once the group becomes fully functional and the members strive to complete the task at hand. As such, performing stage will be the last stage in the group formation process for permanent groups but temporary groups (such as project teams and task forces) will move to adjournment stage once their goals or tasks are completed.

Adjourning

This is called the dissolution stage. After the tasks are performed and goals are accomplished, groups disband. The permanent or ongoing work groups in organizations do not pass through this stage. The temporary groups created for a specific purpose or limited task are most likely to be dissolved now. The dissolution of a group may be planned or spontaneous. Planned termination of a group may occur when it completes the goal or the time given. In contrast, an unscheduled dissolution may occur when the group is unable to achieve the goals repeatedly or some unanticipated developments (problems) affect its existence. In any case, members reduce or stop their dependence on the group. The adjourning stage is usually characterized by completion of tasks, termination of roles and reduced interdependence.

Characteristics of Effective Teams

There are varying degrees of effectiveness with which teams normally operate to accomplish their goals. The effectiveness of teams depends on how well the managers develop the team structure and their members follow the norms. We shall now see the important characteristics of effective teams.[32]

1. Presence of clear direction and definite goals for the team members. Members understand and accept goals and implement them with commitment and involvement. The team structure and procedures are consistent with the team goals and tasks.
2. Presence of effective leadership. Team leaders play an important role in shaping the team effectiveness. There are three specific ways through which members can contribute to team success. They are: (a) uniting people around a compelling purpose (b) sharing power, responsibility and information with team members and (c) frankly admitting their ignorance and being willing to learn from others.[33]
3. Existence of mutual trust and understanding among members. Team members freely and fearlessly contribute to the discussions and make informed decisions.
4. Presence of affirmative organizational environment and supportive leadership that enables the members to reach high performance standards.
5. Encouragement to consensus-based decisions and support of all members for execution of final decisions.
6. Presence of situation-based leadership in teams. Members are willing to lead the team in case of necessity.
7. Availability of necessary resources for effective performance of tasks. They may include human, material, financial and training resources.
8. Attempt to identify and solve the causes and not symptoms of the problems.

9. Presence of tasks which are sufficiently challenging, complex, important and suitable for the collective efforts of a team. The execution of tasks is beyond the capability and capacity of even the most talented individuals.
10. Presence of scope for team members to change, grow and adapt to the prevailing situation.
11. Inclination of the team members to be flexible in their approach towards problem solving, work processes, innovations, etc.
12. Communication channels are open and the members are ready and willing to use the opportunities to share all the data relevant to the goals of the team.

Benefits of Team

According to E. H. Schein, the benefits of teams can be seen from two perspectives. They are organizational perspectives and individual perspectives. We shall now discuss the benefits of a team from the organizational perspective.

Benefits to Organizations

Teams provide the following benefits to organizations:

1. Team enables an organization to pool its best resources and utilize them in a more efficient manner.
2. It helps the organizations to complete the intricate, complex and interdependent tasks which individuals may find it hard to do.
3. It facilitates the effective coordination of interdepartmental activities.
4. Individual members of the team can benefit from the experience and expertise of other members of the team.
5. It helps the organization to develop interpersonal relations and socializing skills among its new employees.
6. It can be an apt and effective tool for generating creative and innovative ideas and also solutions to vexing problems.
7. When compared with individual initiatives, teams are capable of producing synergizing effects due to the harmonization of diverse talents of the members of different departments.
8. In a team fewer errors happen than with individuals; hence, it is capable of achieving significant cost reduction.

Benefits to Individuals

Besides benefiting the organization, a team can also provide the following benefits to individuals:

1. A team is capable of fulfilling the affiliation or social needs of the members.
2. It can minimize and even eliminate the sense of insecurity and powerlessness among the individuals.
3. It provides a forum for resolving the personal and interpersonal problems of its members.
4. Members can make use of the opportunities to check and verify their perceptions relating to social reality.
5. Team is capable of providing a sense of identity to the members.

6. It can boost the self-esteem and confidence of the members.
7. Individuals learn to be more flexible, cooperative and committed in character when they are part of a team.
8. Team members get better opportunities to learn from each other.

Problems in Team-building

Even though teams play increasingly important roles in several organizations, there are quite a few challenges to be met by organizations in developing and managing teams. We shall now discuss these challenges briefly.

Slow and time-consuming decision-making process—Team-based decisions are generally slower than decisions by individuals who work independently. With diverse membership, teams need a longer period of time to arrive at consensus and reach the decision point.

Team-building costs—The cost of team-building in organizations normally depends on the complexity of the goals and the size of the team. When organizations shift employees from the hierarchical structure to new positions in the team structure, they may have to incur high start-up costs.

Organizations generally incur training and opportunity costs when they form teams to perform specific tasks. Here, opportunity costs are the revenue or the profit that an organization would have made if it had exercised an alternative decision instead of the team-building decision. High cost of team-building is an issue of concern for many organizations engaged in team-building exercises.

Team think—Members of the team may tend to limit their feelings of commitment and performance improvements to their teams only. They may thus fail to focus appropriately on the execution of organizational goals. Further, teamwork may limit creativity and inhibit good decisions if team think is more dominant.

Team stress—In teams, employees are often expected to perform diverse nature of activities and roles. Team members may feel the stress and tiredness when the team -work puts extra pressure on them.

Inherent conflict—Conflicts are likely to occur when members have contrasting personal styles. The chances of conflict are more when members have difficulty in accepting ideas and views that differ from their own.

Free-riders in teams—Free riders are those who make less effort (slack off) and allow other members to do most of the work. Since there is less focus on personal performance, individuals may tend to be less serious in their work when they become part of a team. The tendency of team members to avoid responsibility by free riding in teams is called social loafing.[34] Social loafing often leads to productivity loss and it is more likely to happen in large teams where individual performance or output is difficult to be identified and measured.[35]

Summary

1. A team is a combination of two or more people engaged in the execution of common goals by influencing and interacting with one another.
2. Characteristics of teams are: (i) presence of two or more people, (ii) shared perception, (iii) a common purpose, (iv) stable structure and (v) collective accountability.
3. Teams can be classified as formal teams and informal teams. Formal teams can further be classified as vertical teams and horizontal teams.
4. Types of horizontal team are: (i) task force, (ii) cross-functional teams, (iii) committees, (iv) quality teams and (v) virtual teams.
5. High performance work teams and self-managed teams are hybrid teams which have the characteristics of both formal and informal teams.
6. The five stages in team formation are: (i) forming, (ii) storming, (iii) norming, (iv) performing and (v) adjourning.
7. The characteristics of effective teams are: presence of clear direction and definite goals, effective leadership, existence of mutual trust and understanding, presence of affirmative organizational environment, encouragement to consensus-based decision, presence of situation-based leadership, availability of necessary resources, attempt to identify and solve the causes of the problems, presence of tasks that are sufficiently challenging, presence of scope for team members to change, inclination of team members to be flexible and open for communication.
8. Problems in team-building are: slow and time-consuming decision-making process, team-building costs, team think, team stress, inherent conflict and free-riders in teams.

Review Questions

Short-answer questions

1. Define the term team.

2. What are the characteristics of a team?
3. Write short notes on: (a) team norms and (b) team-building.
4. What do you mean by team trust? Why do people trust others in the team?
5. Provide the meaning of cross-functional teams.
6. What are the prerequisites for the success of virtual teams?
7. State the functions of any informal group.
8. Who are free-riders in teams?

Essay-type questions

1. Critically evaluate the different types of formal teams with examples.
2. Explain the importance and key characteristics of high performance work teams.
3. Describe the preparatory requirements for the establishment of self-managed teams.
4. Enumerate the steps in team formation with necessary examples.
5. Illustrate with examples the characteristics of effective teams.
6. Examine the strengths and weaknesses of any team-building exercise.
7. How can teams be made more effective in organizations?
8. Explain the role and relevance of informal groups in organizations.

Case Study

Is Workers' Participation in Management Practical and Useful?

Karunya Fertilizers and Chemicals Ltd is a medium-sized company engaged in the production and distribution of chemicals. The company caters to the requirements of several large and medium-sized industrial customer companies. Its core policies are uncompromising quality, consistent efficiency and speedy delivery. It has a largely unionized workforce of 3500 employees. At present, its HR department is headed by the Director (HR), Mr Ashok Verma. In fact, the young and vibrant Mr Verma took up the HR responsibility of the company just a few months back.

After assuming office, Mr Verma conducted several rounds of discussion with the trade unions and found a major grievance among all the three unions of the organization. All the unions in the company felt unanimously that they were not given, adequate representation in the management and the concept of WPM (workers participation in management) was hardly practiced in the organization. Mr Verma also learnt reliably from different sources that the unions resorted to several agitation tactics in the past to get their demand regarding participative management accepted by the management. However, their tactics like go-slow-in-production, non-cooperation, sit-in strikes and other forms of protests did not yield the desired results. This is because the management was never convinced of the benefits of WPM. They never had any real need to consult the employees in decision making or share any information with the workers. However, Mr Verma differed from the overall perception of the management and greatly felt the need to establish necessary committees or councils at different levels of the organization with due representation for the trade unions. Personally, he also favoured the nomination of worker-directors on the board of the organization. Mr Verma brought this matter repeatedly to the notice of the top management and enlightened them constantly about the mutual benefits of participative management. With the help of his knowledgeable presentation and convincing arguments, Mr Verma finally managed to convince the board of directors about the necessity of WPM and made them provide due representation to the workers and their representatives. In the subsequent management-union meeting, the management agreed to establish councils at three levels of the organization: a council at corporate level, one at the plant level and a necessary number of councils at various shop-floor levels. It also agreed to include an elected worker-director at the board level.

During the initial phase of the establishment of the councils, the unions cooperated with the organization. Council meetings were also progressing well and bonhomie was evident in the attitude and behaviour of the workers' representatives on the board and in the councils. However, things began to change for the management and took a turn for worse after some time as the workers' representatives began to resist and even stall all the important and justifiable decisions of the management. After investigating the matter, the worried management found out that the workers' representatives began to oppose the decisions after they were accused of conniving with the management for pecuniary benefits and bartering away the future and rights of the employees. These charges were made by the rival unions, which had lost the elections for these memberships. Consequently, the union leaders instructed their representatives in the committees to adopt tough postures in the meetings and exhibit a negative attitude towards the management proposals just to retain the credibility of the union and to preserve the membership of the organization. The management was simply stunned by the developments and began to worry about the undue delay in the decisions of the organization and also about the need and future role of these councils in the organization. It now looked toward the HR director to provide solutions to this vexatious issue and its settlement at the earliest.

Questions

1. How do you assess the entire situation at Karunya Fertilizers and Chemicals Ltd?
2. Do you agree with the view of Mr Verma towards workers' participation in management in Indian business environment and trade unions perception?
3. If you were the HR director, how would you have handled the issue of WPM and solve the present crisis of the organization?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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PART VI:

Controlling and Coordination

CHAPTER 16

Controlling

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Define the term controlling
2. State the characteristics of control
3. Understand the importance of control
4. List the steps in the control process
5. Enumerate the approaches to management control system
6. Discuss the types of control
7. Delineate the characteristics of effective control
8. Enumerate the resistance to control and the strategies to overcome it

India's Inspirational Managers

The CEO and MD of Tata Consultancy Services (TCS), N. Chandrasekaran, is responsible for formulating the company's global strategy across 44 countries. TCS is India's largest IT services provider with a workforce of 226,751 professionals. The winner of the "Best CEO of the Year" Award at the Forbes India Leadership Awards 2012, Chandrasekaran was also named the "Pathfinder CEO" of 2012 by the National HRD Network (NHRDN). He is behind several strategic new business initiatives at TCS. The company added new business lines and entered new industry verticals under his careful watch and control. After Chandrasekaran took over the TCS administration in 2009, he reorganized the company into many smaller operational units consisting of 3,000–14,000 employees, each pursuing the best possible growth in their individual domain. Each unit is allowed to manage its own costs and is responsible for its margins. Each of these units has a director who reports to Chandrasekaran. This idea turned out to be an important enabling mechanism for better control of the company's workforce and also margin levels. Keeping the control initiatives of Chandrasekaran in the background, we shall now discuss about the various aspects of managerial control.

Introduction

Organizations must influence and control the behaviour of its members if they want to realize their plans and goals effectively. As an important managerial function, control aims at increasing the chances of achieving the organizational goals. Managers, at every level of the organization, develop and apply controlling techniques to regulate the organizational activities and to achieve desired results. Through controlling, managers ensure that things go on in the way they were planned. As such, management controlling involves checking to decide whether organizational activities adhere to an established plan. It also involves taking necessary actions, if there are any deviations from the plans. Controlling also enables managers to modify or redefine the goals and plans to suit new developments and circumstances. Further, controlling enables managers to stay in contact with their subordinates as they perform their tasks and discharge their responsibilities.

Management control is an absolute necessity in any organization that practices decentralization. However, the kind of control system chosen by an organization should fit its strategy well.[1] In other words, a management control system should affect and be affected by the development of organizational strategies. Management control is basically a process involving different stages. However, the fundamental aim of this process is to motivate people to accomplish the organizational goals and to influence the chances (probability) that they will act in a desired manner.[2] Management control involves activities like planning what the organization should do, coordinating the different activities, communicating information, evaluating the activities and information, deciding the appropriate actions, if necessary, and influencing people to bring about desired behaviour.[3]

Definitions of Control

Most definitions of control focus on the influence of members' behaviour to accomplish the organizational goals and strategies. We shall now look at some definitions of control.

"Management control is the process by which managers influence other members of the organization to implement organization's strategies."—Robert N. Anthony[4]

"Managerial controlling means ensuring that actual performance is in line with intended performance and taking corrective action if necessary."—Edwin C. Leonard[5].

"Management control is the process of ensuring that actual activities conform to planned activities."—James Stoner[6]

"Controlling is the process of monitoring, comparing and correcting work performance."—Stephen P. Robbins[7]

"Control is any process that helps align the actions of the individuals with the interests of their employing firm."—Arnold S. Tannenbaum[8]

"Organizational control is defined as the systematic process through which managers regulate organizational activities to make them consistent with the expectations established in plans and to help them achieve all predetermined standards of performance."—K. A. Merchant[9].

We may define managerial controlling as the process of influencing the behaviour of members with the aim of increasing the chances of their achieving the organizational goal.

Characteristics of Control

Based on the above definitions, the following characteristics of control are derived.

1. **Control is a goal-oriented activity**—Control is a general purposive and goal-oriented action. The primary aim of controlling function is to fulfil the organizational goals and objectives
2. **It is a generic process**[10]—Controlling is a general process involving several stages like setting standards, measurements of

actual performance, comparison of the actual with the standards and initiating corrective action, if necessary.

3. **It is a dynamic but continuous activity**—Control is a dynamic activity as it adjusts to the changes in goals over time. Like other managerial functions, it is also a continuous activity of an organization. Controlling is necessary to ensure that planning, organizing, staffing, motivating and other managerial functions are properly done by the managers.[11]
4. **It is an all-pervasive activity**—Control is exercised over almost every function of the organization and also at every level of the management. It thus runs through the whole organization.
5. **It is probabilistic**—Control always looks to increase the possibilities that people will behave in ways that lead to organizational goal achievement.
6. **It is closely related to planning**—Goals and objectives set by managers as a part of the planning process become the standards in controlling function. Individual and organizational performances are evaluated against these standards. When the standards and actual performance differ, managers perform the controlling function by taking corrective actions.[12]

Importance of Control

Control is an important activity which ensures that organizational activities are carried out properly and that short- and long-term goals are attained in a time-bound manner. It also has several other uses. They are:

1. Controlling enables managers to know whether the organizational members are working towards the predetermined goals and objectives or not.
2. It ensures the effective and optimal utilization of available resources of the organization. It enables organizations to maintain efficient and accountable work places. Understandably, it is capable of increasing productivity and reducing costs.
3. It enables managers to detect the employee underperformance and wastage of resources promptly and efficiently. It thus facilitates the initiation of suitable corrective actions quickly in case of performance deviations.
4. It facilitates managers to effectively impose work discipline among the employees. It also enables them to cope up with the organizational complexities effectively.
5. Controlling facilitates the impersonal supervision of the employees' performance by setting and communicating predetermined standards (plans) in advance.
6. It enables managers to protect the organizational resources from the dangers of financial scandals, security breaches, workplace violence, etc. by fixing responsibility and accountability.[13]
7. It encourages managers to introduce employee empowerment initiatives as controlling makes employees responsible and accountable for all their deeds and misdeeds. In this manner, it facilitates the formation of independent teams such as self-managed teams, high performance work teams, etc.
8. Control enables organizations to influence or regulate the behaviour and actions of the employees by ensuring that their

actions conform to the specifications or standards. It is also capable of preventing any potential conflicts and misunderstanding in the relationship between the managers and their subordinates.

9. Control helps organizations in improving the quality of their planning and organizing processes by providing constant feedback on their efficacy. Moreover, the introduction of Total Quality Management (TQM) in organizations led to vast improvements in the control system. TQM also changed the attitude and approach of the people about the need for effective control.[14]
10. Control enables managers to be swift and flexible in responding to the environmental changes by systematically and rapidly detecting the changes that affect the organizational plans, goals, products and performance.
11. Control enables the organizations to significantly reduce the time period involved in the development and delivery of new products and services to the customers.[15] Consequently, it enables organizations to gain a competitive edge over their rivals.
12. It facilitates the process of value addition to the products or services in terms of quality, safety, usage, etc. Such value-added products or services are capable of influencing the buying decisions of the customers in their favour. Box 16.1 shows safety management in a private multinational company.

Box 16.1
TCCSMS at Coca-Cola

Control seeks to assist the management in steering the organization towards its goals. Managements may have different key result areas (KRAs) for different management control systems. For instance, they may focus on profitability, market position, productivity, product leadership, employee development, employee safety, and public responsibility. In case of employee safety, many organizations adopt proactive health and safety standards to achieve business results and employee motivation. We shall now discuss The Coca-Cola Safety Management system (TCCSHS), a program run by Coca-Cola.

The primary aim of TCCSMS is to guide the company in achieving a safe work environment for its employees. TCCSMS is defined as a rigorous set of operational controls to manage the known aspects and risks of business operations. The controls generally align with the top global requirements and consensus standards. Once the full implementation of operational controls is achieved, it would make sure that the workplace at Coca-Cola meets international standards. The management also ensures that its control systems are constantly updated based on the changes to equipment, structures, processes and procedures.[44]

Steps in the Control Process

Controlling, as a managerial function, is performed through a stepwise process. As shown in Figure 16.1, the basic steps in any controlling process are: (i) establishing standards of performance, (ii) measuring the actual performance, (iii) comparing the actual performance against the standards and (iv) deciding the need for corrective actions. Let us now discuss these steps in detail.

Establishing Standards of Performance

The entire control process begins with the establishment of performance standards against which the actual organizational and individual performances are compared. The performance standards should be clear, concrete and measurable in nature. They should also be consistent with the goals and objectives of the organization. Normally, the goals formulated by managers at the time of planning become the standards for controlling process. Performance standards must be stated clearly in definite terms since they become the criteria for managers to evaluate the past, present or future actions of the people.[16] Organizations normally decide on the type and form of performance standards depending on what is measured and the managerial levels that are responsible for taking corrective actions. The performance standards are usually generated from within the organization but sometimes they may originate from outside sources too. For instance, the Food Safety and Standards Authority of India (FSSAI) set standards for articles of food under the Food Safety and Standards Act, 2006. Whatever may be the sources, performance standards should be neither unrealistically too high nor too low.

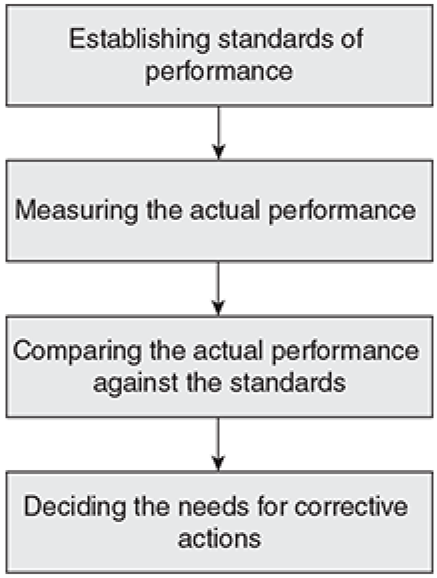

Figure 16.1
The Steps in the Controlling Process

Once the management decides on what is to be measured, it should decide how to measure the performance. In this regard, the management should decide the key performance areas or Key Result Areas (KRAs) that are to be measured. The KRAs refer to those aspects of an organization that need to function effectively so that the organization, as a whole, succeeds in accomplishing its goals and objectives.[17] In case of the marketing function, the KRAs can be sales volume, salesperson's performance, sales expenses and advertising expenses. It may be quantity, quality, cost and productivity for production function. In case of HR function, industrial relations, attrition and absenteeism can be the key indicators. However, the performance standards at higher levels of the management are generally abstract in nature and difficult to be measured.[16] For instance, "customer satisfaction" or "employee morale" may become the standard for measuring the success of an organization as a whole. The performance standards of an organization must be fair and consistent. When the standards are not fair and accurate, they cannot serve their intended purpose.

Measuring the Actual Performance

Once the performance standards are established and communicated in time, the next crucial step for managers is to undertake the measurement of actual performance. In this regard, managers need relevant information to determine what the actual performance is. Most performance measures are expressed in quantitative terms (like sales figures or cost of units produced). But there are certain performance measures that cannot be quantified. In such situations, non-numerical data (also called qualitative data) can be used as performance measures.

Generally, performance measurement is a continuous and ongoing activity of organizations. The timing of performance measurement is generally crucial for the success of the control exercises. The nature of product or service can influence the decision regarding when performance measurement is actually undertaken.[18] The timing of performance evaluation is often influenced by the time frame of the organizational goals. For instance, the short-term goals need evaluation on a short-term basis. In contrast, the long-term goals may provide a longer time frame for performance evaluation. Any mismatch between the duration of the goals and frequency of performance evaluation may lead to the failure of control exercise.

Managers tend to use one or more of the four approaches to measure the actual performance. These approaches are personal observations, statistical reports, oral reports and written reports.[19] The daily, weekly and monthly reports on sales figures measure sales performance. Similarly, product quality, production volumes and unit cost measure production performance. However, some control criteria like employees' absenteeism and turnover, and employee satisfaction can be used to measure any management situation as people management is the responsibility of all the managers. In any case, measuring performance is not a simple or straightforward task for many jobs in organizations.

Comparing the Actual Performance Against the Standards

At this stage of the controlling process, actual performance is evaluated with the help of the standards set earlier. This is done by comparing the actual performance with the standards with the aim of knowing the performance variations. The actual performance may be more than (positive variation), less than (negative variation) or equal to the standard. It is to be understood clearly that some variation in performance can be anticipated in all organizational activities. Managers normally initiate corrective actions only when the variations exceed the permissible limits or range. Normally, managers will find it easy to make comparisons if the standards are clear and the actual performances are easy to measure.[20]

Deciding the Need for Corrective Actions

Based on the results of the comparisons, managers will determine the need for corrective actions. A simple control equation is useful for better understanding of the need for action.[21]

Need for Action = Desired Performance – Actual Performance

Managers normally choose to act in any one of the following three ways after they complete performance evaluation:

1. **Maintaining the status quo**—This is also called the "do nothing" option. Managers normally prefer to maintain the status quo when the actual performance is equal to the standards or the deviation is within the acceptable limits. It will be useful to provide positive feedback (including rewards) to the people responsible for the action, so that they are encouraged to continue to meet the performance standards.[22]
2. **Correcting actual performance**—This is called problem situation where the actual performance is less than the standards and it calls for some definite corrective actions. The general purpose of any corrective action in a problem situation is to promote actual performance. Corrective actions, which normally require certain changes in some behaviour, actions or other aspects of the organization, take actual performance closer or equal to the standards.[23]

   After careful analysis of the problems behind the performance deviation, managers could take different corrective actions. For instance, they may provide training, initiate disciplinary actions or decrease monetary benefits, if unsatisfactory work is found to be the reason for performance variation. In any case, managers must first decide whether the situation requires immediate corrective action or basic corrective action. If the performance problem is to be attended immediately to achieve desired performance levels, managers may prefer immediate corrective actions. As against this, if the managers want to know the root cause of performance variations in detail, they should go for basic corrective actions. Basic, corrective actions help managers to know why and how the performance deviated.

3. **Changing the standards**—In some instances, performance variances may occur due to improper standards like unrealistically too high or too low standards. The actual performance may consistently exceed the standard when the standards are too easy to achieve. In such a situation, managers should upwardly revise the standards. In contrast, managers may have to lower the standards when even the efficient performers consistently fail to meet the standards. The note of caution here is that there is a tendency among people to blame the standards even for their own failures. For example, sales people may blame their sales targets when they fail to achieve them. In any case, the performance standards should not be too rigid and always reflect the realities of the prevailing situation.

Approaches to Management Control System

Approaches to management control system can be classified into six categories. An understanding of these approaches will enable managers to design management control system effectively. As shown in Figure 16.2, these approaches are: (i) bureaucratic and mechanic approach, (ii) cybernetic approach, (iii) agency approach, (iv) human resource approach, (v) contingency approach and (vi) cultural approach.[24] Let us now briefly discuss these approaches.

Bureaucratic and Mechanic Approach

According to this approach, control is a discrete function of the management. Organizations adopt formal policies, practices and procedures to standardize and influence behaviour, evaluate performance, and correct undesirable deviations from the standard. Objectives, rules, hierarchy of authority, reward systems and standardization are a few bureaucratic and mechanic instruments used to implement control system. Employee compliance is the ultimate goal of bureaucratic approach.

Cybernetic Approach

According to cybernetic approach, activities related to the control process are actually information-based activities. They are to be seen from an information processing perspective. Goal-setting, budgeting, resource allocation, performance measurement, identification of deviations and corrective actions and reward allocation are all information-based activities. The basic premise of this approach is that "a system's self-regulating ability is based on feedback loop." A feedback loop is a section of the control system that allows for self-correction whenever there are differences between the actual output and standard output. As per this approach, corrective actions in case of performance variance will happen as a dynamic process based on the feedback loops.[25]

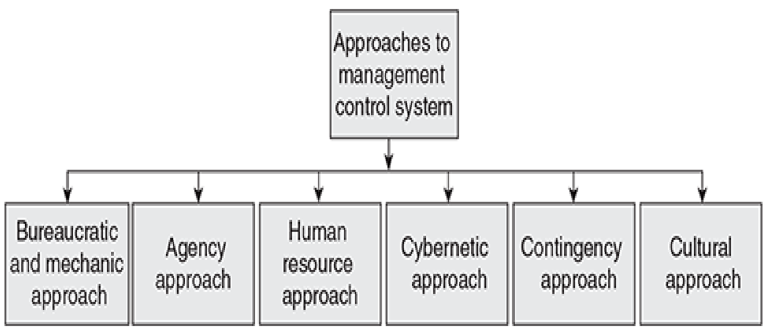

Figure 16.2
Approaches to Management Control

Agency Approach

According to this approach, each organization is a unit in which principal–agent relationships are primary. The two important agency relationships seen in organizations are shareholders (principal)—top management (agent) relationship and top management (principal)—subordinates (agent) relationship. As per this view, organizations should strive hard to reach commonality of interest between the principals and the agents, resulting in minimized agency costs.

Human Resource Approach

According to this approach, it is necessary to find a good fit between the organization and its members. This is because both the organization and employees benefit out of such good fit. For instance, organizations benefit by getting committed people with creativity and motivation. Individuals benefit by getting meaningful, enjoyable and rewarding jobs. In this approach, organizations are primarily viewed as "coalitions of decision-making individuals."[26] It is therefore necessary to identify, understand and recognize the differences in the capacity and capability of these individuals.

Contingency Approach

According to this approach, organizations are open systems that should constantly adapt to the changes in internal and external environments. This approach presupposes that there can be no "fit all" control system available that suits all organizations in all situations. This is because the efficacy of a system (organization) is affected by a variety of contingency factors. Generally, the size, scale, technology, leadership style, organizational culture, stage in the organizational life cycle, resource requirements and organizational structure are a few examples of contingency factors that affect an organization.

Cultural Approach

According to this approach, each organization has certain cultures that help its members to interpret the organizational activities, events, policies, procedures, rules, documents and processes. Usually, the values, norms, traditions, perceptions and beliefs collectively shape the culture of an organization. As per this approach, cultural factors have a significant influence on the control practices of an organization.[27] Hence, management must understand how organizational members understand, define, modify and shape the control system.

Types of Control

Since there is no universally-accepted control system available for organizations, it becomes essential for each organization to develop a control system that suits the situation and requirements. Moreover, managements need to establish control at different levels and functional areas. Managers thus use different control methods for supervising and measuring the organizational performance. Generally, the nature of the organization, intended users and the characteristics of problems influence managerial decisions regarding the choice of control methods and systems. Broadly, management control can be classified into internal control and external control.

Internal Control

Internal control refers to people exercising self-control in their work. In other words, internal control takes place when organizational members exercise self-discipline while fulfilling the goals assigned or job expectations. To make internal control effective, managers must ensure that the employees are well aware of the organizational mission and their goals.[28] Employees should also be provided with adequate resources for doing their job well. Internal control is better suited for well-motivated, committed and high calibre workforce. It is an effective mechanism for empowering individuals and teams.

External Control

External control refers to the imposition of control on the work activities of the organizational members through external rewards and direct supervision. Generally, external control takes place when organizational members are controlled by managers through the administrative system. In external control, the situation within which employee does his/her work is clearly structured to make certain that goals are properly fulfilled. To make external control effective, managers must ensure that: (i) the objectives and performance standards are relatively difficult so that the members put in their best possible efforts (ii) there is no scope available to the members to manipulate the performance measures and objectives set by the managers (iii) the members know about the direct link between performance and rewards.[29] External controls can ensure that the members perform their work well because they are aware that their good performance will be rewarded. Though members may fulfil their goals, external control cannot develop a sense of commitment among the organizational members.

The control system of an organization can be classified as operations control, financial control, structural control, strategic control and information control.[30] Managements should choose a need-based, goal-oriented organizational control system for effective utilization and control of its human, physical, financial and information resources. We shall now briefly discuss the important organizational control methods, as shown in Figure 16.3.

Operations Control

Operations control deals with the processes adopted by an organization for conversion of resources into products or services. As organizations mostly operate in an open system, they interact with the environments through an input–throughput (process)–output cycle. This calls for control at every phase of the cycle. The three types of control that deal with different phases of input–process–output cycle are feedforward control (preliminary control), concurrent control (screening control) and feedback control (post-action control). These operation controls can be exercised at different points with regard to the conversion process adopted by an organization.[31] We shall now see the purposes and characteristics of each of these basic forms of control.

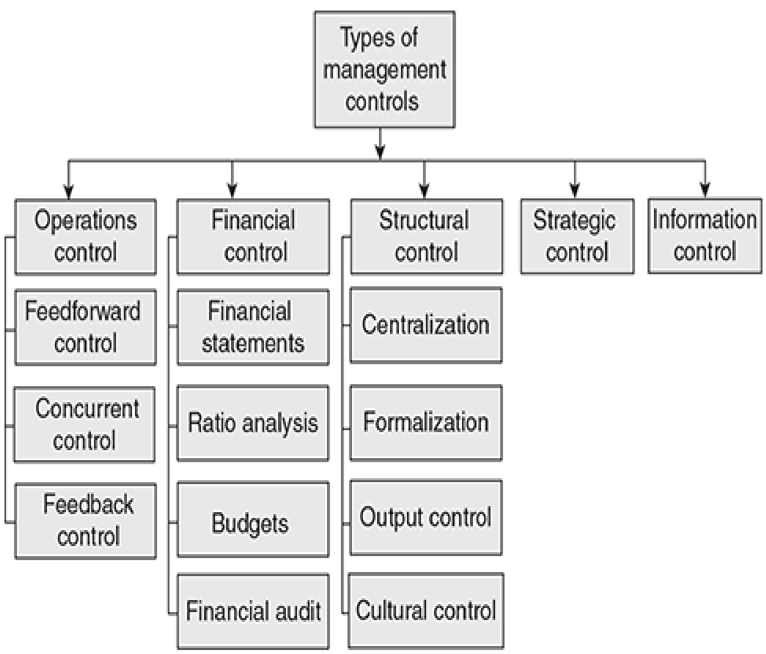

Figure 16.3
Types of Management Control

Feedforward control—When managers implement control even before the actual activity begins, it is called feedforward control. The feedforward control is also known as input control, steering control or preventive control. The main aim of feed-forward control is to solve the problems before they occur. This type of control focuses on the human resources, physical resources and financial resources that become the input for the transformation process. It proactively seeks to minimize or prevent the performance deficiencies through a precautionary control system. The success of feedforward control depends crucially on the ability of managers to anticipate the problems and achieve timely interventions. Feedforward control thus involves asking questions like, "What can we do ahead of time to help our plan to succeed?"[32] Preventive maintenance on machinery or due diligence is an example of feedforward control. Generally, efficient cross-functional communication and long-term strategic thinking are essential for feedforward control.

Concurrent control—This control is exercised even when the work activity is in progress. It is also called real-time control and process control. This control concentrates primarily on the present situation. When the performance standards are not met, managers or any other authorized person can stop the work activity in progress and take necessary corrective actions. Thus, the aim of this control is to solve the problem even while it occurs. The well-known form of concurrent control is direct supervision by managers or supervisors. This supervision is also known as "management by walking around." The merit of this control system is that it ensures that transformation process is functioning properly and that the expected results are achieved. It also makes sure that the work problems are attended to before they become too costly. The strength of this control is that it attempts to eliminate or reduce the delay between the actual performance and feedback on the performance.[33] A few examples of concurrent control are display panels on the photocopier machines and computer printers that alert the users in case of malfunctioning, displays on the dashboard of automobiles that warn drivers of impending or actual problems like low fuel or oil, brake problems, engine temperatures, etc.

Feedback control—When control is exercised on the results (outcome) of the work activity it is called feedback control. This control is also called output control, corrective control or post-action control. This is the most popular kind of control in organizations. The primary aim of this control is to identify the undesirable output and apply corrective actions. In feedback control, the information received as feedback is typically fed back into the process for taking necessary remedial actions. Many studies have shown that feedback is capable of improving both individual and organizational performance.[34]

The underlying principle of feedback control is that everyone can learn from the past experience. Financial statements like income statements and balance sheet are examples of feedback control. The weakness of this control is that there may be a time delay in taking corrective action to solve the problems. For instance, when the income statement reveals loss at the end of the business year, the information may be of no use to the managers as the loss has already occurred. However, post-performance feedback can be an effective input for future planning, goal formulation and revision of input and process designs. Feedback enables managers to take a holistic view of the effectiveness of the planning and execution of the work activities. Feedback control can enhance employee motivation when information on how well they performed in the work is shared with them.[35]

Financial Control

Financial control deals with the financial resources of an organization. It aims at controlling the inflow and outflow of financial resources. The primary purpose of financial control is to check whether the financial resources are optimally utilized so that the organization controls cost and earns profit. Financial statements, budgets and financial audits play a key role in any organization's financial control initiatives. We shall now discuss them here.

Financial statements—Financial statements are summaries of monetary data about an organization. Financial statements typically include the balance sheet and the income statement. Balance sheet shows the financial position of the organization at a particular point of time (say, on 31st March) by listing its assets and liabilities. Income statement indicates the results of the organization's business operations, which may show profit (revenue more than expenses) or loss (expenses more than revenue) during the year.

Financial statements can provide a wealth of information to external parties like shareholders, creditors, government, tax authorities, trade unions, customers and the general public. But they have limited use to managers. This is because financial statements mostly deal with the past period of an organization. Managers therefore prepare ratios (ratio analysis) and cash flow statements based on financial statement data to make decisions and to exercise control over the financial resources. Here, cash flow statements enable managers to find out the sources of cash inflows and the transactions that result in the cash outflow during a specific period (say, an accounting year). Ratio analysis in turn offers multiple benefits to managers. Let us now see how ratio analysis helps in financial controlling activities of managers.

Ratio analysis—Ratios are useful to managers in assessing the financial health of an organization. Ratio analysis involves the comparison of any two related financial data to make meaningful inferences. The rationale behind the preparation of ratio analysis is that a single figure (say, a profit of Rs. 5 million) by itself has little meaning unless it is compared with another relevant figure (say, a capital Rs. 50 million). Now it can be ascertained that the business made a 10% return (profit) on its investment (5 million/50 million x 100). Depending on the information requirements, managers can work out different ratios. The frequently used ratios are as follows:

1. **Liquidity ratios**—These are useful to determine the ability of an organization to meet its short-term financial obligations. It also indicates the organization's short-term financial strength or solvency. Examples of liquidity ratio are current ratio, liquid or quick ratio and absolute liquid ratio.
2. **Activity ratios**—These are helpful to managers in measuring how effectively the organization uses its resources. It evaluates the performance of certain key activities of the organization like

inventories, accounts receivables (debtors and bills receivables), accounts payables (creditors and bills payable), fixed assets, etc. The examples are inventory turnover ratio, receivable turnover ratio and payable turnover ratio.

3. **Leverage/capital structure ratios**—These are useful in assessing the long-term financial strength of an organization. They help in measuring an organization's ability to pay interest regularly and the principal on due date. These ratios establish relationship between the owner's capital and borrower's fund. Examples are debt–equity ratio, debt–assets ratio and equity–assets ratio.
4. **Profitability ratios**—These are important in measuring the operating efficiency of the organization. They also enable managers to understand the financial soundness of the organization. Examples are gross profit ratio, net profit ratio, expense ratio, return on assets ratio and return on capital employed ratio.

Budgets—Budgets are the important financial tools used by managers for controlling work activities at almost all levels of the organization. Budget is a financial plan of an organization developed for a specific period of time. Budget may offer information on the estimated revenues and expenses connected with a function (like marketing, production, etc.), a unit or an organization. It may also indicate which work activities are important for the organization and how much of resources need to be allocated to these activities. Budgets are generally formulated before the commencement of the work activities. They become the standards to the managers for measuring, monitoring and controlling the work activities. Budgets can also become the basis for coordinating the different activities of an organization. Budget feedback can serve as inputs for improving both the planning and controlling processes. However, budgets are often viewed as costly and time-consuming exercise. They are also seen as obstacles that can limit the imagination and innovations of people.

Budgets can broadly be classified into operating budgets and financial budgets. Operating budget deals with the physical activities of organizations. Examples of operating budgets are purchase budgets, production budgets, sales budgets and expenses budgets. Financial budget deals with cash receipts and payments, business results and financial status or positions.[36] Cash budget, budgeted income statement, budgeted statement of retained earnings and the budgeted balance sheet are the components of financial budgets.

Financial audit—An audit is an independent examination and expression of opinion on the financial statement of an enterprise by an appointed auditor.[37] It involves independent verification of an organization's financial, operational and accounting practices. It also provides assurance on the reliability and fairness of the information in conformity with the standards. Basically, audits are of two types, namely, compliance audits and operational audits.[38] Compliance audits confirm the fairness of information against the given standards. Operational audits evaluate the efficiency and effectiveness of a work activity, function, unit, department or the whole organization. Based on the nature of the activities involved, audit can also be classified as external audit and internal audit. Let us now look at these two types of audits.

1. **External audit—**External audit is carried out by external auditors, who are not normally the employees of the organization but are independent chartered accountants. The primary task of external audit is to lend credibility to the financial statements prepared by the managers of an organization. But external auditors can do both compliance audit and operational audit (if specifically requested by the organization). In this regard, external auditors should verify and certify that the organizations, while preparing the financial statements, have adhered to all the accounting standards properly and honestly. External audit reports are vital sources of information to the external parties like financial institutions and potential investors for all their decisions relating to the audited company. Usually, external audit is done after the end of an accounting year and after the financial statements are prepared. Since the external audit reports act as deterrents against potential frauds, they can supplement the managers' efforts towards stricter financial control and discipline.
2. **Internal audit**—Internal audit is performed by the employees of the organization. Operational audits that verify an organization's operational efficiency are entrusted with the internal auditors. The primary goal of internal auditors is to provide a reasonable assurance that risk management, control and governance systems are working as planned and the organization is on the right track to realize its objectives and goals. Internal audits should constantly look out for any deficiencies in the internal control and risk management system. They should detect and report deficiencies, if any, so that the managers carry out necessary corrections immediately. Organizations can opt for full-time or part-time internal auditors depending on the nature, need, size and policies of the organization. Box 16.2 shows the internal control system of a technology company.

Box 16.2
Internal Control System of 3M India Limited

Many Indian companies have developed well-designed internal control systems based on the nature of their business and the size and complexity of their operations. The presence of a robust internal control system and process ensures smooth conduct of the business as it provides for well-documented policies/guidelines, authorizations and approval procedures. Typically, this internal control system is periodically checked by internal as well as external auditors. The internal control system of 3M India Limited is a case in point.

3M India Limited is the Indian subsidiary of the diversified technology solution provider 3M Corporation, a global innovation company. This company regularly carries out an audit of its offices, factories and key areas of business segments based on the plan approved by the audit committee. The management of this company usually carries out such audits through its own corporate internal audit department to identify any possible deviation to the existing internal control procedure. The reports of the internal auditor are sent to the audit committee as well as to the managing director. The audit reports/observations are periodically reviewed and compliance ensured, if necessary. The summary of the internal audit observations and status of the implementation is presented to the audit committee of the board of directors. The audit committee also reviews the status of implementation of the recommendations on a regular basis and concerns, if any, are reported to the board.[45]

Structural Control

Structural control—focuses on the effectiveness of the organization’s structural variables or elements in accomplishing the predetermined goals and objectives. Managements may use any one of the four structural control mechanisms for achieving the organizational goals and purposes. They are centralization, formalization, output control and culture control.

Centralization—Managers can exercise stricter control by centralizing the decision-making authority. When decision-making powers are centralized and vested with the managers, they can achieve control over decision-making process. Managers can also achieve control over the decision-making process by insisting that the decision makers obtain their approval for decisions before implementing them.

Formalization—Managers may enforce strict, detailed and formal rules, procedures, policies and guidelines for guiding in the decision-making process in organizations. In this way, they can have close control over the organizational members.

Output control—Managers may control the decision-making process by establishing goals and objectives that will act as measures for decisions.

Cultural control—"Organizational culture is a system of shared values and beliefs that interact with an organization's members, structures, and control systems to produce behavioral norms."[39] By establishing a set of shared values and expectations, managers can guide the decision-making process. In this way, organizational culture can help managers in controlling the decision-making process even without any strong base of power. In management of control work, cultural control is often viewed as being a part of specific types of controls like action control and result control.[40]

Strategic Control

Strategic control attempts to identify how effective an organization's corporate, business and functional strategies are in fulfilling the organizational goal and objectives. This control attempts to make sure that organizations keep effective alignment with their environment that facilitates the achievement of their strategic goals.[41] Top-level managers depend on strategic control to gain an operational understanding of the organizations' various operating units. Strategic control involves effective and continuous control of leadership, technology, human resources, information, structure and operational systems. As a part of strategic control, for example, an organization may analyse whether the existing structure or leadership style accelerates or decelerates the decision-making process of the organization.

Information Control

Information control has become a necessity in many organizations. Managers need the right information at the right time for making the right decisions about people and physical resources. They also need adequate information for supervising and evaluating the organizational activities. However, they should not be fed with too much information or too little information, as they may not know what exactly is going on.[42] Generally, managers use information control to achieve control over all the organizational activities. Now, there is a growing need to tighten the information control mechanisms due to frequent information thefts caused by internal and external security breaches. Managers often rely on computer-based management information system (MIS) to get the necessary information in a timely and need-based manner. MIS is capable of gathering data and converting them into appropriate information useful for managers.

Characteristics of Effective Control

Control is an inherent part of an organization. The success of planning initiatives and goal accomplishment of organizations depends on the effectiveness of the control mechanism. However, the characteristics of effective control may vary with situation and also from one organization to another.

Easily understandable—Proper understanding of a control mechanism by its users is a prerequisite for its success. Generally, the control mechanism must remain simple, straightforward and less complicated at the lower levels of the management. This should enable supervisors to understand and apply them easily and effectively. In contrast, the control mechanism at the top levels of the management can be more sophisticated and in-depth, which may involve the usage of management information system, charts and graphs, and elaborate reports. When the control system is not properly understood by the people who are affected by it, it would cause unnecessary anxiety and frustration in them.

Flexible—The control mechanism must be sufficiently flexible to permit changes, if required. For instance, when a change in product line needs corresponding changes in the raw material requirements, then the control system must be flexible enough to handle the increase or decrease in material requirements. Similarly, when machinery breakdown or material shortage affects the employee performance, managers should recognize the abnormality of the situation and make appropriate changes in the performance standards.

Suitability—The control mechanism should be suitable for the activities carried out. The complexity of the activities should determine the complexity of the control process. A small task performed in a small department may not require an intense and comprehensive controlling. In contrast, large organizations with multiple operations may require complex information system-based control mechanism for effective control. In any case, organizations must ensure the cost-effectiveness of their control mechanism.

Accuracy—The control mechanism must be capable of generating accurate information for decision making by the managers. Inaccurate information understandably leads to inaccurate decisions affecting the interest of the organizations. For instance, salespersons may tend to hedge or manipulate the sales figures to achieve sales targets. Based on such fabricated sales figure, managers will be led to make erroneous decisions.

Timeliness—The control mechanism should be capable of detecting the performance variances without delay. Managers must be informed of such variances at the earliest so that their corrective actions are quick and effective. The control systems that adequately forewarn the managers about the impending performance variation will be the most effective ones.

Accountability—The control system should help the managers to not only detect the performance variation but also indicate clearly the persons responsible for such variations. Besides, it should locate the cause of such variances so that the managers fix accountability clearly and objectively.

Linked to plans and goals—Generally, the goals set as a part of planning process become the standards for controlling. Therefore, there must be a clear and explicit link between planning and control. To make control effective, managers must pay adequate attention to the controlling function (particularly, to developing standards) even while planning the activities. Managers can do an excellent job of linking the planning function with the controlling function by simultaneously working on goal formulation and standards setting.

Principle of exception—The control system must be designed in such a way that only the significant variations that require corrective actions are brought to the notice of the managers. Managers must not be troubled as long as everything is in conformity with the standards. This should enable them to save their time otherwise used for unnecessary supervision and marginally beneficial control reports.

Reasons for Resistance to Control in Organizations

Employees may oppose control for multiple reasons, especially when the purpose and the outcome of such control measures are not known to them clearly. We shall now look at the important reasons for employee resistance.

Excessive control—The control mechanism is essential for the smooth functioning of the organization. Specifically, it ensures effective supervision of employees, maintenance of quality, presence of proper safety measurements and observance of technical procedures. However, exercising too much of control over employee behaviour can certainly be harmful as they may feel stressed out. Excessive control may make employees operate more out of fear, than out of willingness to contribute.

Perceived bias—When employees think that the control mechanism lacks objectivity in the fixation of standards, measures and rewards, they are likely to resist such control measures. Similarly, when the employees feel that the rewards are grossly insufficient for their performance, they may resist control initiatives.

Tendency to avoid accountability—Control requires employees to accept responsibility for their work activities. In reality, employees often mistakenly associate accountability with only discipline and punishment. Consequently, they attempt to oppose control to avoid accepting any responsibility. The resistance can be more severe if the managers are not making sure that the employees understand the goals and expectations clearly, and also what is expected of them.

Absence of employees' participation in the control process—When employees are not involved in the controlling process, they may feel alienated from it. They may also think that all control measures are externally imposed on them. In such a situation, they may resist managers' efforts to set up a control system.

Inconsistent focus—When there are inbuilt contradictions in the goals, purposes or focus of the controlling function, employees may oppose control if such contradiction will have any negative effect on the organization or individual. For instance, sales target that forces sales people to pursue high pressure tactics to achieve short-term sales target may produce a negative impact on the public image of the organization in the long run.

Strategies to Overcome Resistance to Control

Organizations may adopt certain measures to reduce and remove employee resistance to its control initiatives. Some of them are discussed here.

Application of MBO techniques—Techniques such as Peter Drucker's management by objectivies (MBO) can substantially reduce employee resistance to control initiatives. This is because MBO insists that the superior and subordinates jointly set the goals, plan the work activities and also jointly control such activities. In case of controlling, the emphasis of MBO is on the joint review of subordinates' performance and also a discussion preceding the implementation of corrective actions.

Gaining the confidence of employees through transparent process—Managers can gain employees' confidence in control mechanism by ensuring that there is transparency and objectivity in every aspect of the controlling process. These aspects are performance standards, measures, evaluation process, remedial actions, etc.

Multiple verification process—Organizations must have more than one standard to ensure accuracy of the performance indicators. When employees attribute their performance failure to some external factors, the management should be able to check the genuineness of the employees' claim with the help of other standards. Suppose a marketing manager claims that he failed to meet sales figure due to inadequate inventory of the products and delivery delays, a well-designed inventory control system can support or dispute such claims.

Summary

1. Managerial control is defined as the process of influencing the behaviour of members with the aim of increasing the chances of their achieving the organizational goal.
2. The characteristics of control are that it is a goal-oriented activity, it is a generic process, it is a dynamic but continuous activity, it is an all-pervasive activity, it is probabilistic and it is closely related to planning.
3. Steps in the controlling process are: (i) establishing standards of performance (ii) measuring the actual performance (iii) comparing the actual performance against the standards and (iv) deciding the need for corrective actions.
4. Approaches to the management control system are: (i) bureaucratic and mechanic approach, (ii) cybernetic approach, (iii) agency approach, (iv) human resource approach, (v) contingency approach and (vi) cultural approach.
5. Management control can be classified into internal control and external control. The control system of an organization can be classified as operations control, financial control, structural control, strategic control and information control.
6. Operations control can be classified as feedforward control (preliminary control), concurrent control (screening control) and feedback control (post-action control). Financial control includes financial statements, cash flow statement, ratio analysis and budgets. Ratio analysis includes liquidity ratio, activity ratio, leverage ratio and profitability ratio.

7. Financial audit is an independent examination and expression of opinion on the financial statement of an enterprise by an appointed auditor. Audit can be classified as external audit and internal audit.
8. Structural control focuses on the effectiveness of an organization's structural variables or elements in accomplishing the predetermined goals and objectives. Four structural control mechanisms are centralization, formalization, output control and culture control.
9. Strategic control attempts to identify how effective an organization's corporate, business and functional strategies are in fulfilling the organizational goals and objectives.
10. Characteristics of effective control are: it is easily understandable, flexible, its suitability, accuracy, timeliness, accountability, link to plans and goals, and principle of exception.
11. Reasons for resistance to control in organizations are excessive control, perceived bias, tendency to avoid accountability, absence of employees' participation in the control process and inconsistent focus.
12. Strategies to overcome resistance to control are application of MBO techniques, gaining the confidence of employees through transparent process and multiple verification process.

Review Questions

Short-answer questions

1. Define the term management control.
2. What are the characteristics of controlling?
3. Explain briefly the importance of controlling.
4. Write a short note on bureaucratic approach.
5. Distinguish between internal control and external control.
6. List the important ratios used in controlling.
7. State the meaning and characteristics of financial audit.
8. Write a note on structural controlling.
9. What do you mean by information control?
10. What is meant by budgetary control?

Essay-type questions

1. Critically examine the meaning and significance of management control.
2. Explain the steps in the controlling process with relevant examples.
3. Enumerate the approaches to the management control system.
4. Discuss briefly the different control systems with examples.
5. Critically evaluate operations control with a suitable example.
6. Describe the characteristics of effective control.
7. Examine the reasons for resistance to control and state the strategies to overcome them.

Case Study

Subtle Resistance to Controlling Measures

Akasah Tubes Limited is an automobile company engaged in the production and distribution of precision-welded ERW and CDW steel tubes, and manufactures speciality cold rolled close annealed (CRCA) strips catering to international standards and high strength tubular components. The major customers of this company are automobile, general engineering, boiler, white goods and fine blanking industries. For the past several decades, this company has enjoyed a near monopoly in the sale of telescopic front fork inner tubes and cylinder bore tubes for shock absorber and gas spring applications. It had carved a niche for itself through innovation and product development. It has also maintained cordiality and harmony in the labour–management relations. It has not faced any serious industrial disputes in the last two decades. However, things have started to change for Akasah Tubes after the entry of a couple of multinational companies in the field. It began to gradually lose its market domination as a result of fierce competition from its rivals. Due to the availability of alternatives, its customers became more demanding about the quality and cost of products. The management of Akasah Tubes clearly realized that a stringent control system is decisive to its survival, growth and adaptation in a highly-competitive business environment.

To facilitate better control as a part of a quality enhancement and cost-reduction drive, the QC department initiated several measures like revamping the work instructions, safety norms, job codes, development of rapid response teams to attend work-related problems, constant evaluation and upgrading the skills of production line employees, introduction of multiple feedback systems for measuring employee performance, close supervision, etc. Through these improved monitoring and measurement initiatives, the management expected to achieve its revised goals relating to product quality and employee performance. Interestingly, employees in the production department adopted a lukewarm approach to these new control measures. Even though they did not put up any explicit resistance to these measures, they began to believe that the managers had become control freaks due to the fall in sales and market share consequent to the entry of strong rivals in the markets. The production line employees believed that controlling measures and structural changes that are more motivating and rewarding (the desired behaviour), but less controlling and monitoring are more effective in achieving the organization's quality and performance goals. The management is clueless about what needs to be done next.

Questions

1. What are the control-related problems of Akasah Tubes Limited?
2. What immediate corrective actions are required in the latest controlling measures adopted by this company?
3. What type of control would be appropriate for this company and how should it be introduced?

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CHAPTER 17

Coordination

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning of coordination
2. Describe the significance of coordination
3. Enumerate the principles of coordination
4. Discuss the types of coordination
5. List the steps in the coordination process
6. Evaluate the techniques of coordination
7. Explain the requirements for effective coordination

India's Inspirational Managers

R. S. Butola is the former chairman of Indian Oil Corporation Ltd., which is India's largest company with a sales turnover of ₹ 409,957 crore. IndianOil is the highest ranked Indian company in *Fortune's* Global 500 listings, ranking at the 83rd position. Before joining IndianOil, Butola was the managing director of ONGC Videsh Ltd. (OVL). Butola is also the chairman of Petroleum Federation of India (PetroFed). He has rich and diverse experience in all aspects of the hydrocarbon industry ranging from project development and execution to commercial closures. Under his stewardship, IndianOil was engaged in an enterprise-wide exercise to strengthen its internal system by optimizing the supply chain and achieving zero-process interruption. Butola is well-focused on building bench strength in his company's core businesses. Butola won the coveted Lifetime Achievement Award from the Dainik Bhaskar group for his stellar roles as a team leader, a game changer and a motivator. Keeping his achievements in the background, we shall now discuss coordination.

Introduction

Coordination, as a managerial function, involves the establishment of links between the various parts of an organization. Besides people and processes, coordination is also equally important to ensure the smooth functioning of all components of an organization. It ensures that the whole organization moves in a common direction towards the accomplishment of goals and objectives. Coordination thus becomes imperative to fulfilling the strategic and operational objectives. Traditional literatures on organizations recognize coordination as a paramount function of management.[1] Coordination not only supports the integration of the organizational activities but also facilitates effective decision making by the managers. This is possible because coordination enables managers to anticipate and react quickly to the changes in the internal and external environment that need organizational adjustment.[2]

In many organizations, coordination is the key competence that drives performance. It is generally viewed as an end result of the management process. This is because the management function is only about the coordination of all activities, efforts and the internal and external forces that impact the organization. Coordination is essential for integrating tasks and resources for accomplishing the organizational objectives. It also enables managers to establish collaborative relationships among various resources like human resources and physical resources of the organizations. It thus serves as a key to all managerial functions. Coordination becomes more important in organizations where effective interaction of decisions made by different groups of people are critical to the success of goal initiatives. Through coordination, management ensures that all managers undertake goal fulfilling actions alone.

Definitions of Coordination

Coordination is all about establishing a relationship, and therefore people should know the different patterns of relationships. Obviously, many authors of coordination emphasize on the interrelationship and interaction of functions in their definitions. Let us now look at a few definitions of coordination.

"Coordination is the orderly arrangement of group effort to provide unity of action in the pursuit of a common purpose."—Mooney[3]

"Coordination is the effort to assure a smooth interplay of the functions and forces of all different parts of an organization to the end that its purpose will be realized with a minimum of friction and maximum of collaborative effectiveness."—Tead[4]

"Coordination is the conscious process of assembling and synchronizing differentiated activities so that they function harmoniously in the attainment of organizational objectives."—Haimann and Scott[5]

"Coordination is the process of developing the required patterns of group effort and securing unity of action for the accomplishment of common goals."—Dalton McFarland[6]

"Coordination refers to the quality of collaboration across departments."—Richard L Daft[7]

We may define coordination as the process of integrating the various activities in an orderly manner with the intention of accomplishing the organizational goals.

From the above definitions, it becomes clear that shared knowledge, shared goals and mutual respect are the three important characteristics of coordination.

Significance of Coordination

Similar to any other managerial function, coordination also plays a crucial role in the accomplishment of objectives and goals in the organization. Let us now see the importance of coordination as a managerial function.

1. Coordination is a continuous activity of an organization. Similar to other managerial functions, managers need to perform coordination function continuously to achieve the organizational goals and objectives repeatedly.
2. It aims at achieving unity of action. Specifically, it enables an organization to unify all its activities and channel them towards the accomplishment of organizational goals. Coordination is also capable of producing synergy effect, which means the total result is greater than the sum of individual achievements. It aims at achieving required patterns of group and individual

performances necessary for the smooth functioning and efficient accomplishment of an organization.

3. Coordination is in effect the responsibility of all the managers at all levels of an organization. Coordination ensures stability and growth of an organization by helping the managers to connect different departments and sections and weld them as one entity. It thus enables managers to view the organization as a whole and avoid narrow sectional goals and interests.
4. Coordination is necessary to ensure the smooth interplay of different functions performed by an organization both within and outside of it. Integration and balancing of individual efforts also guarantee the presence of a smooth and harmonious work team.
5. It facilitates efficient management of resources and time. It also avoids waste and duplication of work, and overlapping efforts, and thus reduces cost.
6. It helps managers improve the human relations by reconciling organizational and individual goals. It also promotes commitment and loyalty among the employees. Box 17.1 shows the coordination and realignment initiatives of a multinational company.

Box 17.1
Innovation Through Realignment—A Microsoft Initiative

There is growing realization among companies about the role and importance of coordination in achieving balanced organizational performance. Companies realize that effective coordination of internal and external organizational components can help in reducing the internal and external complexities and uncertainties within the organization. They believe that effective coordination can enhance productivity, link macro- and micro-level organizational dynamics and improve trust among organizational groups. In this regard, organizations may evolve their own goals and strategies for their coordination initiatives. Microsoft's realignment and coordination initiatives are a case in point.

Microsoft has recently announced its realignment strategy that aims at enhancing speed, efficiency and capability to innovate and improve performance. Through its realignment strategies and coordination initiatives, this company expects to achieve better execution from product conceptualization and innovation right through to marketing and sales. The performance enhancement initiatives of this company have three dimensions. They are: (i) focusing the whole company on a single strategy, (ii) enhancing its capability in all disciplines and engineering/technology areas and (iii) working together with more collaboration and agility around its common goals. Microsoft also believes that its single strategy as one company will drive it to set shared goals for all activities.[14]

Principles of Coordination

When an organization grows in size and shape, two things always occur. They are: (i) new positions and departments are added to deal with the new developments, opportunities and threats emerging in the external environment and to meet the changing goals and needs of an organization and (ii) managers searching for ways and means to integrate the activities of all these positions and departments. These developments necessitate the presence of effective coordination. To make coordination effective, Mary Parker Follett[8] has suggested four principles of coordination (Figure 17.1). We shall now briefly discuss these principles.

Principle of Direct Contact

According to this principle, each manager should maintain direct or personal contact with his or her subordinates. Direct contact is often viewed as the best way of conveying ideas and information effectively. It also facilitates the exchange of opinions and suggestions between the managers and subordinates. It thus ensures that there are no misunderstandings and tensions in the relations between the managers and subordinates. It can also avoid any possible conflicts and disputes in the relations. Generally, direct contact can be established with the help of face-to-face meetings through conferences, committees, etc.

Principle of Early Stages Coordination

As per this principle, management should begin the process of coordination even at the early stage of enterprise formation. The rationale behind this principle is that coordination can be achieved easily and effectively if it is undertaken in the early stages of planning and policy formulation. Understandably, managers need to have a long-range vision while undertaking the coordination function.

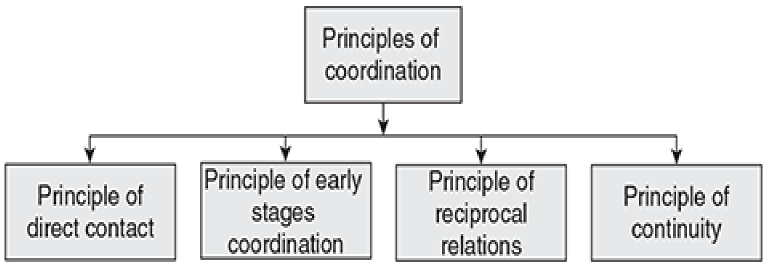

Figure 17.1
Principles of Coordination

Principle of Reciprocal Relations

As per this principle, managers must first ascertain the likely effect of their decisions on other people and departments within the organization. This is essential because of the interrelated nature of people and departments in the organization. For instance, the decision or action of one person in any one department may impact the decisions or actions of others in the same or other departments. Therefore, managers must give due importance to the interrelationship while devising their coordination strategy.

Principle of Continuity

This principle insists that managers must view coordination as a continuous activity and not as a one-time activity. Simply put, coordination as a managerial function begins and ends with an organization. It should, therefore, be able to perpetuate itself. Managers should continuously coordinate the various activities of the organization irrespective of the changes in the plan, policies, activities and situation.

Types of Coordination

George Terry, who views coordination as a dynamic activity, classified it into four types. They are: (a) coordination within an individual, (b) coordination among individuals of a group, (c) coordination among groups of an enterprise and (d) coordination with those of other enterprises and forces (like government regulatory measures, economic conditions, etc.).[9] Based on the number of people involved and nature of activities undertaken, coordination can be categorized as internal coordination and external coordination. We shall now briefly look at each of them.

Internal Coordination

Coordination within an organization is typically known as internal coordination. It involves coordination among different individuals, groups, units and departments of an organization. It also refers to the integration of financial, material and human resources available with an organization for organizational purposes.

External Coordination

Coordination between an organization and its external environment is called external coordination. It typically involves coordination with suppliers, customers, trade unions, competitors, shareholders, banks, government agencies and all others who interact with the organization from outside. Effective internal and external coordination is an essential prerequisite for the smooth and successful functioning of organizations.

Depending on the level of management, coordination may also be classified as vertical, horizontal and diagonal coordination.

1. **Vertical coordination**—means the coordination of activities carried out at different levels of the management. Vertical coordination is achieved among people in superior–subordinate relationships. Coordination between the top and middle levels of management is an example of vertical coordination. Similarly, when the department head (say, sales manager) coordinates the activities of the subordinates (say, sales team) working under him, it may be called vertical coordination.
2. **Horizontal coordination**—is the coordination across functional departments such as marketing department, purchase department, finance department, HR department, etc. It can also be achieved among peers working in the same department. It typically involves the activities carried out at the same level of management. Horizontal[10] coordination is a key function in any organizational

structure. A successful production or marketing requires various departments to cooperate and communicate with each other over a period of time. Managers achieve horizontal coordination through direct contact between departments, information system, task forces, teams and full-time integrators.[11]

3. **Diagonal coordination**—means the coordination of activities performed at different levels and different departments of the organization. In large organizations where top management has no direct access or proximity to the working arrangement, diagonal coordination can be effective. This coordination becomes more important when different departments depend on a particular department to accomplish a specific goal.

Techniques of Coordination

An organization can achieve coordination in a variety of ways. As seen in Figure 17.2, the major techniques of coordination are authority, objectivities, policies, procedures, rules, methods, committees, conferences, coordinators, communications, collective bargaining, performance reviews and managements, information technology tools and voluntary coordination. We shall now briefly discuss these techniques.

Authority

Authority is the capacity to evoke compliance in others.[12] It ensures that people comply with the orders and instructions issued by their superiors. Authority facilitates coordinated behaviour among the organizational members towards goals and activities. In organizations, interpersonal relations are mostly structured and organizational activities are coordinated in terms of the prescribed authority of the managers.

Objectives

Objectives are capable of providing direction to the whole organization. They also enable the management to achieve unity of action and direction. This facilitates the managers to achieve coordination with ease.

Policies, Procedures, Rules and Regulations

Policies, procedures, rules and regulations are used by the management to standardize the behaviour of members. Policies help to ensure that the members' behaviour in the workplace conform to the organizational rules and external laws. It also makes certain that the members' behaviour meet the expectations of the management. Typically, policies apply to particular situations in the form of procedure. Procedures may be defined as step-by-step list of activities needed to carry out predetermined tasks. Policies and procedures aim at ensuring that all the activities of an organization are performed in an efficient manner. In brief, these procedures and policies help the managers to achieve conformity in employees' behaviour and coordination of their activities.

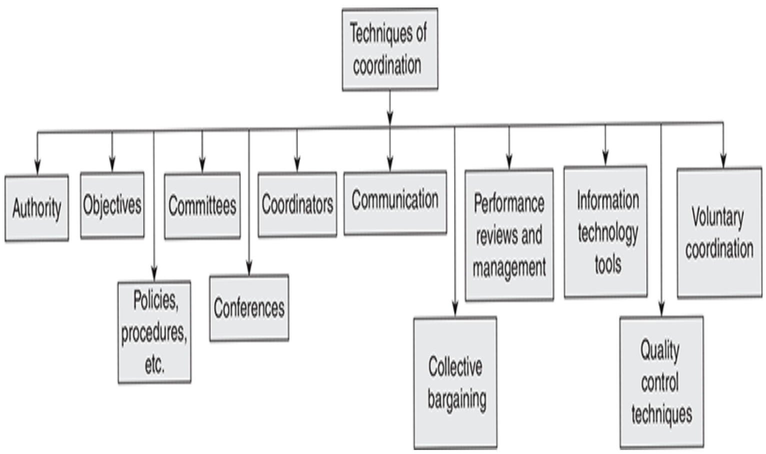

Figure 17.2
Techniques of Coordination

Committees

Committees are generally made up of members representing different departments. Managers can achieve coordination among employees working under them by forming committees or work groups. Since committees are made up of a small number of members with frequent interactions, they facilitate better coordination among these members.

Conferences

Conferences are used for achieving effective coordination among the organizational members. Since conferences involve wide membership, they become effective forums for the managers to discuss various common issues and reach understanding on important organizational issues. Such understanding in turn helps in ensuring better coordination of activities and cooperation among members.

Coordinators

Organizations may use a coordinator for integrating the activities of various departments. In organizations, coordinators are also known as integrators or liaisons. Coordinators normally work in one department and coordinate the activities of one or more departments. The primary role of coordinators is to represent their units, departments or divisions in the meetings, conferences, etc. They participate in the discussions and pass on the information gathered from the meetings with the members of their departments. For instance, coordinators may disseminate information on issues, policies and regulations to their department people. Box 17.2 shows the role of integrators in consumer packaged goods companies.

Communication

In organizations, communication is another effective and useful instrument for coordinating the activities of the organizational members and achieving common understanding on matters of importance. In this regard, managers may use e-mails, circulars, notices, memos, internal magazines, staff meetings and verbal announcements to communicate necessary information to the organizational members working across different departments.

Box 17.2
Integrators in Consumer Packaged Goods Companies

Many organizations prefer organizational integrators for achieving the required level of coordination, building coalitions or spearheading the operation in an increasingly complex and complicated situations. They may be identified variedly as project manager, product manager, team leaders, etc. In case of consumer packaged goods (CPG) companies, managements may opt for creative marketing integrators like brand managers, category managers, key account executives or geographic leaders. Brand managers are people in a coordinating role with specialized negotiating and networking skills. They engage in assorted activities ranging from product development to consumer interactions. They make sure that all interrelated elements are brought together and the right products reach the right market at the right time.

Besides these integrators, companies can also opt for “bridge functions” composed of employees drawn from marketing, supply chain, finance, R&D, etc. The members of the bridge function will have diverse knowledge and expertise. Generally, the purpose behind the formation of the bridge function is to build relevant capabilities in critical business units and codify the best practices and incorporate them into its formal processes and training programmes.[15]

Collective Bargaining

Organizations may utilize the collective bargaining process to enhance coordination between the management and the employees. Typically, managements can use trade union leaders, who represent the employees, in the bargaining process to convey information on certain organizational issues like terms and conditions of employment, etc. Management may also use these leaders to get the acceptance of the employees to the changes proposed by the management. Trader union leaders can also use bargaining process to express the workplace concerns and sentiments of the employees.

Performance Reviews and Management

Organizations may use performance management as a technique for achieving coordination among the employees. Performance reviews provide opportunities to the managers to discuss with employees the performance goals for the future, how well those goals should be met, and what must be done to continue to meet those goals. They can also discuss how well the past goals were met and the areas of concern. Since performance management focuses on many aspects of the organization and its processes like goals, plans, processes and outcomes, it facilitates effective coordination of different activities of the organization.

Information Technology Tools

Computers have helped managers to increase the effectiveness of coordination. Specifically, managers use integrated management information systems, human resource information systems, office automation software, project management software, etc., to monitor and coordinate the employee activities efficiently and almost continuously.

Quality Control Techniques

Many quality control programmes focus on the overall activities involved in developing, producing and distributing products and services. Of late, several quality control programmes such as Total Quality Management, ISO 9000 and Balanced Scorecard have greatly helped organizations in improving coordination among the various departments and their activities.

Voluntary coordination—Managers may create a conducive environment that facilitates voluntary coordination. In voluntary coordination, organizational members develop a natural desire to coordinate their activities with the activities of the members of other departments. In other words, coordination is achieved more by persuasion and motivation and less by the superior's command. Positive environment, mutual trust, effective leadership and good communication are essential for achieving voluntary coordination in organizations.

Even though organizations may adopt any one or more of these techniques to achieve the required level of coordination, success depends on the nature of tasks performed and the prevailing environment.

Steps in the Coordination Process

Organizations with well-developed coordination processes enjoy several advantages. They may achieve: (i) well-developed relationship among different departments and units, (ii) a shared vision among all the organizational members whose activities are coordinated, (iii) confidence and trust among the managers and employees about their organizational mission, vision and the availability of critical support and (iv) a way to test and verify performance. Though each organization can decide on the steps to be followed in coordination depending on their specific requirements, they may also adopt the steps shown in Figure 17.3 to achieve effective coordination.

1. Managers should first understand the current organizational policies, procedures and plans before beginning the process of coordination. They should also identify the existing organizational structure and the key participants in the coordination process. Wherever necessary, they should develop standard operating procedures and rules and norms of behaviour.
2. Managers should design and develop effective decision-making system that enables them to supervise the organizational activities personally. They should also establish a dynamic communication channel for faster and effective dissemination of information among the various departments. Effective decision-making and communication systems are also essential for quickly identifying and solving the problems associated with coordination.
3. Managers should next install a proper system for reporting of activities by various participants on a routine basis. The participants may report on the nature and pattern of organizational activities carried out, the outcome of such activities, etc.
4. Managers should formulate an appropriate reward system necessary for encouraging the participants to comply with the requirements of effective coordination. The reward system should also develop harmonious relationship among the participants.
5. At this stage, managers can form committees or task forces made up of employees to perform certain coordination-related functions. The purpose behind the formation of these committees is to relieve the managers of certain routine activities relating to the coordination function.

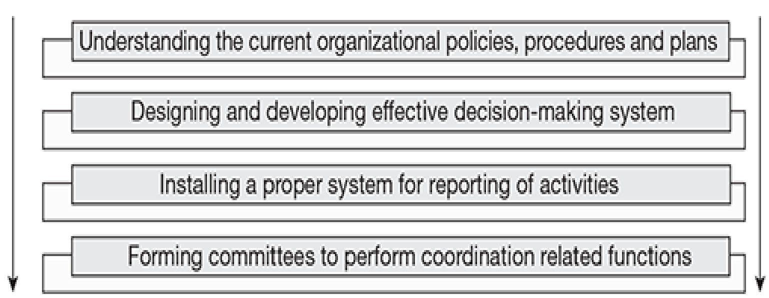

Figure 17.3
Steps in the Coordination Process

Besides adopting the above steps, managers should also encourage personal and informal interactions among people working across different departments to enhance the effectiveness of coordination.

Once the coordination procedure is developed, it is essential to review it carefully before actual implementation. While reviewing, care should be taken to ensure that the coordination procedures are complete and properly sequenced. Once the coordination procedures have been reviewed and revised, they should be properly documented.

It is to be understood clearly that the successful process of coordination also requires the development of coordination skills, leadership skills, and communication skills among the participants. This is essential for the systematic implementation of coordination in organizations.

For the process of coordination, Peter Drucker has suggested a simple three-step process. The steps are: (i) activity analysis, (ii) decision analysis and (iii) relation analysis.[13]

1. Activity analysis involves the analysis of the activities performed by people across different levels and departments in an organization. This analysis normally involves answering questions like what works are to be done, how these works should be done, who should do them, how these works are to be grouped and coordinated and what level of emphasis should be provided for each of these works.
2. Decision analysis involves the determination of the possible nature, kind and timing of the decisions to be made in the future. It is to be noted that an accurate prediction of future events is simply impossible as the future is characterized by uncertainty.
3. Relation analysis involves the analysis of the nature of relationship prevailing between the task of superiors and subordinates. This analysis may also cover the relationship existing among the peer groups. Relationship analysis deals with both vertical and horizontal relationships.

Requirements for Effective Coordination

Since co-ordination is a continuing process, organizations should keep it dynamic and effective. To make coordination effective, organizations should have a: (i) suitable coordination structure, (ii) schedule of administrative tasks and (iii) method for presenting information. Effective coordination should fulfil the conditions shown in Figure 17.4.

Well-defined Goals and Mission

Clearly defined goals and mission are essential for the success of coordination initiatives. These goals and mission can unify the actions of the employees and provide them a sense of direction. Coordination thus requires continuous update and effective communication of organizational missions and goals to all the people. Sound planning is also a basic prerequisite for effective coordination. This is because plans are also capable of ensuring uniformity of actions. In this regard, the management must ensure that the plans of different teams, units and departments are well-integrated. Understandably, well-integrated plans, clearly-defined goals, harmonized policies and standard procedures provide an ideal stage for effective coordination.

Competent Leadership

The presence of competent leadership is perhaps a critical requirement to the success of coordination-related initiatives. Professional and competent leadership that believes in a democratic style can gain the employees' trust in and cooperation for its coordination initiatives. Effective leadership can also help the organization in reducing its reliance on the formal methods of coordination like authority, rules and procedures.

Simplified Organizational Structure

The management can achieve effective coordination by keeping a simple and sound organizational structure. There needs to be a clear chain of command in organizations to ensure effective coordination of different individuals, units, divisions and departments. Organizations should have clearly-defined line of authority that flows from top to bottom. When authority, responsibility and accountability of individuals across departments are well-defined, it can avoid many potential conflicts in interpersonal relationships. Clear organizational charts, well-developed organizational manual and appropriate allocation of work can help managers in coordinating the organizational activities with ease.

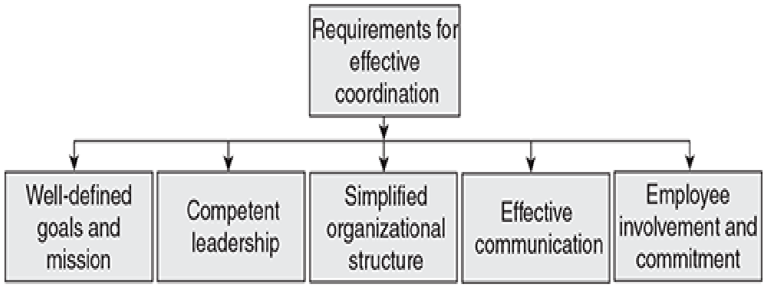

Figure 17.4
Requirements for Effective Coordination

Effective Communication

Organizations should have open and two-way channels of communication to make coordination effective. When managements can ensure that there is a free and frank exchange of opinions and information among employees, they can create mutual trust and understanding among the employees. Effective communication can also help managements resolve difference of opinion and conflicts in interpersonal relations. Effective communication in coordination may mean frequent communication, timely communication, accurate communication and goal-oriented problem-solving communication.

Employee Involvement and Commitment

Effective coordination requires the complete involvement and commitment of the employees of the organization. Employees with high involvement generally contribute better to the improvement and success of their work organizations. They also display a high sense of ownership and commitment and tend to be more cooperative than others. It becomes easier for the management to coordinate the activities of the employees with high involvement. To enhance employee involvement and commitment, organizations need to provide them with training in team effectiveness, problem solving, communication, etc.

Summary

1. Coordination is the process of integrating the various activities in an orderly manner with the intention of accomplishing the organizational goals.
2. The four principles of coordination are the principle of direct contact, principle of early stages coordination, principle of reciprocal relations and the principle of continuity.
3. Coordination within an organization is typically known as internal coordination. Coordination between an organization and its external environment is called external coordination.
4. Vertical coordination means the coordination of activities carried out at different levels of the management. Horizontal coordination refers to coordination across functional departments. Diagonal coordination means the coordination of activities performed at different levels and different departments of the organization.
5. Techniques of coordination include authority, objectivity, policies, procedures, rules and methods, committees, conferences, coordinator, communications, collective bargaining, performance reviews and management, information technology tools, quality control techniques and voluntary coordination.
6. Steps in the coordination process are: (i) understanding the current organizational policies, procedures and plans, (ii) designing and developing effective decision-making system, (iii) installing a proper system for reporting of activities, (iv) formulating an appropriate reward system and (v) forming committees to perform coordination-related functions.
7. Requirements for effective coordination are well-defined goals and mission, competent leadership, simplified organizational structure, effective communication and employee involvement and commitment.

Review Questions

Short-answer questions

1. What do you mean by coordination?
2. Explain briefly the significance of coordination.
3. What is meant by early stages of coordination?
4. Distinguish between internal and external coordination.
5. Write a short note on diagonal coordination.

Essay-type questions

1. Critically examine the principles of coordination with examples.
2. Enumerate the different types of coordination with a suitable example.
3. Discuss in detail the different types of techniques of coordination.
4. Illustrate with example the steps in the coordination process.
5. Evaluate the requirements for effective coordination.
6. Coordination is a process to achieve unity of action. Discuss.

Case Study

Is Proper Coordination a Panacea for all Problems?

Green Horn is an Atmospheric Fluidized Bed Boilers producing company with an annual turnover of ₹ 4000 crore. Green Horn, which commenced its operations in the year 1979, has now become a company capable of designing, manufacturing and constructing a wide of range of boilers, thermal oil heaters, energy chillers and customized products like exhaust gas boilers. This company has about 6,800 employees, including people in technical as well as-non technical categories. Green Horn's product development and project management capabilities are backed by a robust R&D set up, which has dedicated technology development and adaptation facilities for various industrial applications.

Green Horn has been facing problems in sticking to the promised delivery schedule due to production bottlenecks as well as heavy order booking. As a part of its strategic move to reduce time delay and cost escalation in commissioning of boilers, the company increased its outsourcing from what was initially, 35%–40% to 55%–60% for all products. Green Horn expected that this outsourcing decision would enable it to reduce the cost of expanding the facility from an estimated ₹ 1,400 crore to 900 crore. It also planned to substantially boost its manufacturing capability through this outsourcing exercise. In fact, Green Horn's top management viewed this enlarged outsourcing as a panacea to all its problems relating to time delay and cost overruns.

However, the outsourcing strategy of Green Horn simply backfired and the end result was just the opposite of what it aimed at achieving. It failed to achieve both cost reduction and faster commissioning of boilers. Actually, it began to witness serious time delays in the receipt of outsourced components from vendors leading to cost escalation in the projects. However, the quality of the outsourced material conformed to the standards set by the company. Quite obviously, managers of different functional departments, i.e. manufacturing, material management, engineering and commercial began to complain about the serious disturbances in the production schedule. Sadly, Green Horn further faulted on its delivery promises and thus incurred the wrath of customers.

For their part, the vendors of the company complained about the absence of any on-site support from Green Horn for solving various technical problems. For them, these technical problems appeared to be the root cause of delay in their timely completion of components outsourced by Green Horn. Though the top management is seized with problems relating to outsourcing, it still believes that its strategy of outsourcing can work well provided there is better coordination among all the interested parties.

Questions

1. In your opinion, what went wrong in the outsourcing decision of Green Horn?
2. What needs to be done regarding the complaints of the vendors?
3. What according to you is the long-term solution to the problems associated with outsourcing from the coordination perspective?

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PART VII:

Emerging Topics

CHAPTER 18

Change Management

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the characteristics and objectives of change management
2. Discover the elements and causes of organizational change
3. List the types of organizational changes
4. Enumerate the steps in the change management process
5. Explain the types and symptoms of employee resistance
6. Learn the strategies to tackle resistance to changes
7. Discover why change initiatives fail
8. List the strategies to enhance success in change management
9. Present an overview of organizational restructuring

India's Inspirational Managers

Vineet Nayar, the vice-chairman and CEO of HCL Technologies, is one of the eight Indians in Thinkers50, a global listing of the world's best business minds. When HCL required a change strategy to transform the company into a high-performing organization, Nayar architected an unconventional strategy called "Employees First, Customers Second" (EFCS). Today, EFCS has become a global phenomenon and set a benchmark for good people-management practice. Nayar believes in transferring the ownership of the organizational change and growth to the next generation of leaders who are closest to where the decision impacts the organization. He insists that organizations should attract the "transformers," who continuously want to change the world by pursuing their passion. He believes in three best practices to facilitate organizational change and growth. They are: (1) increased autonomy to employees by inverting the traditional organizational pyramid; (2) encouraging employee passion on a grand scale and (3) unfettered organic creativity and employee innovation. We shall now discuss change management strategies based on Vineet Nayar's experiences and accomplishments.

Introduction

Change management is a systematic and planned process of transforming individuals, teams and organizations to achieve a desired future state. Due to relentless changes in the business environment, organizational changes and its management have almost become a continuous function of the management. Change management helps an organization not only in mitigating the business risk arising from its failure to manage the people side of change but also in completely avoiding them in many cases.[1] Managers of any type involved in managing people generally experience resistance to changes from employees. Change management enable them to prevent such resistance and lead changes. Change management is thus a process whereby changes required in an organization are executed in a planned and controlled manner.

Organizational change simply means any departure from the status quo in the organization. Changes in the organization are often caused by two forces, i.e. organization's top management and its environment**.** Developments in the internal or external environment of an organization may necessitate changes in the organization. Though change is an inevitable element of any modern business environment, its implementation is a challenge to both the management and the employees. Typically, changes implemented in an organization cause the organizational systems to perform better and deliver increased levels of output. We shall now look at the definitions of change management.

Definitions of Change Management

Managing people in a changing environment to achieve desired results is the focus of many definitions of change management. We shall now see a few definitions.

"Change management is the process, tools and techniques to manage the people-side of business change to achieve the required business outcome and to realize that business change effectively within the social infrastructure of the workplace."—Hiatt and Creasey[2]

"Change management can be defined as the process of continually renewing an organization's direction, structure, and capabilities to serve the ever changing needs of external and internal customers."—Moran and Brightman[3]

"Change management can be defined as "activities involved in (1) defining and instilling new values, attitudes, norms, and behaviours within an organization that support new ways of doing work and overcome resistance to change; (2) building consensus among customers and stakeholders on specific changes designed to better meet their needs; and (3) planning, testing, and implementing all aspects of the transition from one organizational structure or business process to another."—GAO, 1998[4]

"Change management incorporates the organizational tools that can be utilized to help individuals make successful personal transitions resulting in the adoption and realization of change."—Tim Creasey[5]

Characteristics of Organizational Change Management

Based on the definitions, the following characteristics can be derived for organizational change and change management:

1. Organizational change refers to changing the elements of organizations, such as systems, processes, job roles and organizational structure.
2. Change is a continuous process in organizations that operate in environments characterized by continuous changes. In a dynamic world, not changing simply is not an option for organizations.
3. Change is a response to specific problems or opportunities of an organization that may arise out of external or internal stimuli. Change management is the bridge between the solution and results.
4. Change management involves moving an organization from its present state though a transition state to a desired future state. Present state refers to how activities are done today while future state refers to the new system, process, job structure or job roles as defined by change.[6]
5. The role, relevance and urgency of change management depends on the amounts of disruption created in an individual's everyday work and also on the organization's value system, culture, ethos, practices, policies etc.

6. Change management focuses narrowly on values of cost, quality and schedule.[7]

Objectives of Change Management

Change management is needed by organizations to fulfil many of their objectives. The objectives are as follows:

1. To systematically enable the employees to accept the changes proposed by the management.
2. To understand and remove the causes of resistance to change in organizations in a planned and phased manner.
3. To improve the organizational performance by solving problems, improving revenue, reducing cost, reducing wastes and inefficiencies, increasing quality, etc.
4. To seize and utilize the opportunities emerging in the internal and external environment of the organization.
5. To build relevant knowledge, skills and ability (KSAs) within the organization to execute change plans in a successful way.
6. To align and realign the relationship between the strategy and work depending on the changes and requirements.
7. To remain competitive in the changing market environment.

Elements of Change

As shown in Figure 18.1, three elements, i.e. processes, people and technology, drive change in any organization irrespective of its size, nature and complexity of operations. These elements are often targeted in many change management programmes. Usually, processes are shaped and reshaped as a response to the changing market conditions. Technology facilitates and enables the process designs. People, as a third element, leverage both the technology and processes to ensure the success of the intended change programme.[8] We shall briefly look at each of these elements of changes.

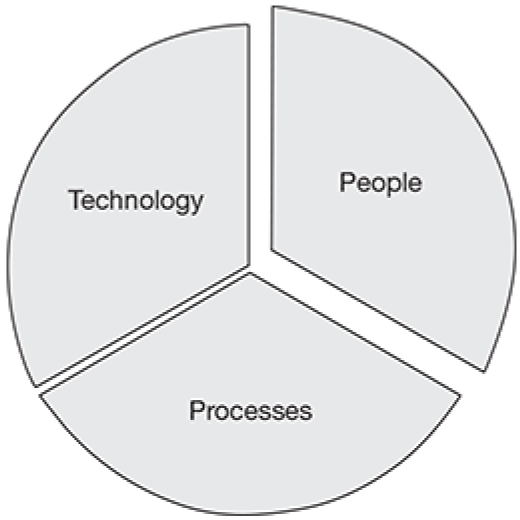

Figure 18.1
Elements of Organizational Change

Processes

Policies, procedures, rules and regulations along with process map determine the business processes. These processes design and describe the way different works are carried out in organizations. Based on the market conditions and developments, these processes are continuously redesigned so that the emerging market opportunities are exploited, challenges are met and organizational goals are accomplished.

Technology

Technology is normally applied to ensure consistency in the application of the processes. While executing changes, it helps in enhancing the performance efficiency of the processes. Typically, the technology requirements are influenced by the process requirements which are influenced by the intended changes.

People

In any situation, people in the process are those who make the process successful. Typically, people create process, own process and also get emotionally attached to the process. They also become emotional when these processes are changed. It thus becomes crucial for organizations to carefully consider the people side of the change. Organizations should also realise that the designing of new processes and the development of new technology will be of little or no use if people are not a part of the change process. It is people who design new processes, develop new technology and apply these processes and technology to accomplish the intended changes. Organizations should therefore ensure that the people are convinced of the need for changes and play an active role in the change process. Box 18.1 shows the change management approach of a software company.

Box 18.1
Change—A Way of Life at TCS

In any organization, change management requires careful planning and sensitive implementation. Equally important is involving all people who will be affected by these changes in one way or another. Organizations which have been around for many years develop competencies to effect changes in a systematic and smooth manner. This is essential because when people get used to a certain way of doing things; any proposal to change is obviously met with passive or active resistance at different levels. In such a situation, managing change essentially means changing the mindset of the people before changing the structure and processes. In this regard, we shall see how Tata Consultancy Services (TCS) manages change and grows.

TCS views change as a way of life and thus has developed an institutionalized process to absorb changes and achieve growth in a changing environment. Generally, TCS invests in multiple technologies and also cross-trains people in those technologies. This strategy enables this organization to assimilate new technologies as it happens. TCS has also made it a way of life to proactively invest in new technologies, which are essential for building the future.[23]

Causes of Change in Organizations

Prior to planning, implementing and managing changes, it is essential for managers to trace the causes of changes. Managers must be prepared to deal with both the causes and effects of organizational changes.

There are many developments in the internal and external environments that may become individually or collectively responsible for the introduction of change initiatives in an organization. Typically, the factors responsible for changes affecting an organization can be classified into internal and external factors.

Internal Factors

The internal factors that cause organizational changes are:

1. Changes in managerial styles
2. Implementation of new technology
3. Changes in the characteristics of the workforce
4. Decline in the organizational performance and profitability
5. Employees' suggestions for improvement
6. Conflict in the labour–management relations

Let us now discuss a few specific instances which necessitate changes. Management may feel the need for change when the (a) organization is considerably over-or under-staffed, (b) latest skills and knowledge are required to meet the present or expected operational requirements, (c) existing performance evaluation mechanism is not objective and the accountability for results is not clearly-defined, (d) existing communication systems are faulty, inconsistent and erratic, (e) workforce productivity is abysmally low or stagnant, (f) labour turnover is dangerously high and (g) employee morale is low.

External Factors

The external factors responsible for changes in an organization are:

1. Change in economic environment
2. Change in government policies
3. Entry or exit of competitors
4. Adoption of new strategies by competitors
5. Change in the cost of production like change in material and labour cost
6. Technology developments
7. Changes in relevant laws and legislations

8. Changes in labour market conditions
9. Shift in customers' tastes and preferences
10. Role of pressure groups

Types of Organizational Changes

Organizations effect changes for survival, growth and prestige. In this regard, they remain in continuous contact with the external environment to get inputs, which indicate the existing or impending changes in the environment. When an organization receives definite clues about environmental changes, it begins to put in place necessary measures to effect changes. An organization has an option to choose between two types of changes. They are: (i) developmental change and (ii) transformational change.

Developmental Change

Developmental change is an incremental change in which necessary improvements are made in the existing organization. When individual parts of an organization deal increasingly and separately with one problem and one objective at a time, it is known as incremental change.[9] The term developmental change may be defined as the improvement of a skill, method, conditions, which for some reason, does not measure up to current expectations.[10] In this kind of change, the fundamental characteristics of the organization are preserved and only a few aspects of the organization are improved to align well with the changes occurring in the environment. For instance, improvements in the production techniques, work process and performance standards of employees are a few types of developmental changes. Generally, organizations carry out incremental changes at the time of mergers, acquisitions and new product or technology introductions.[11] By and large, these kinds of changes cause minimum stress to the employees and hence face little resistance from them.

Transformational Change

In this kind of organizational change, there would be fundamental changes in the organization. These changes would be complete in all aspects and impact every sphere of activities of the firm. In fact, the transformation in this kind of change is so deep and exhaustive that the result of organizational change could even be the emergence of a new organization. Organizations adopt transformational changes when the developmental changes are grossly inadequate or it is simply overwhelmed by the force and implications of external environmental changes. Transformational changes may result in an organization acquiring new identity, new mission or complete organizational restructuring.[12] Changes resulting in the closure of a division of an organization or drastic corporate reorganization are a few examples of transformational change. This type of change is often forced by developments in the external environment like advent of new technologies, drastic changes in market conditions like demand and supply, unexpected competition, etc.

Steps in the Change Management Process

As far as the change process is concerned, organizations may adopt different approaches to effect changes. For instance, some organizations may prefer planned, structured and explicit change process while others may opt for natural, unstructured and implicit change process. They may adopt suitable strategies for carrying out changes. Though managements can have their own plans on how they manage change in their organization, the change process shown in Figure 18.2 can be adopted by any organization with necessary modifications. The steps in the change process are: (i) defining the environmental problem that requires changes in the organization (ii) determining the goals of change process (iii) deciding the strategies and actions for introducing changes (iv) implementing the change plans and (v) evaluating and providing feedback.

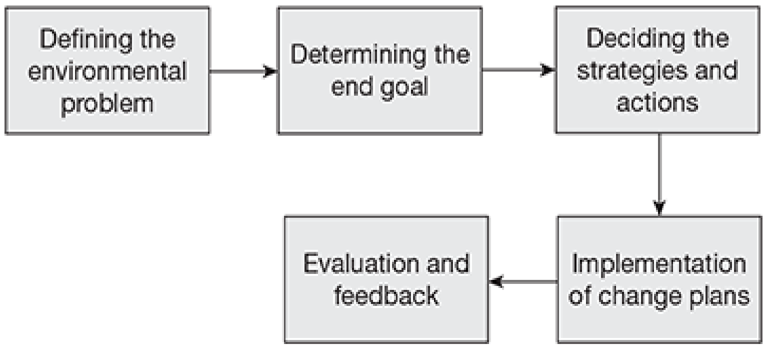

Figure 18.2
Steps in the Organizational Change Management Process

Defining the Environmental Problems that Require Changes in the Organization

The first step in the change management process is assessing the need for change in the organization. Managers must first recognize that there exists a problem in the environment which has implications for the existing or future position of the organization. In this regard, they must constantly scan the internal and external environments to detect challenges and opportunities that require changes in the organization. Then, managers should identify the sources of that problem. The source of problem may be explicit or implicit. When there is a sudden decline in sales performance, rise in cost or increase in labour turnover, the problem is explicit. In contrast, sometimes the problems may not manifest for long time and remain dormant. Once the problem is defined, the source is identified and implications are understood, the organization should move to the next step of determining the goals of change initiatives.

Determining the End Goal of the Change Process

The second step in the change management process is the determination of goals. Managers must decide how the organization should be after change is successfully introduced. The goals must be precise, unambiguous and overarching to the entire change management process. At this stage, managers must also identify the obstacles to the achievement of goals and develop necessary strategies for tackling those obstacles. Managers should assess the likely response of the employees to the change management strategy of the organization. If they anticipate resistance to change within the organization, they should clearly forecast the nature, extent and source of resistance. The resistance may come from a few individuals, groups or even from the entire workforce. The prevailing culture of the organization plays a crucial role in determining the attitude of the employees. For instance, the existing culture may facilitate or hinder change efforts of the organization. As part of the change management process, managers may have to either strengthen or modify the existing culture depending upon its role in the change process.[13]

Deciding the Strategies and Actions for Introducing Changes

At this stage, managers must decide the strategies for introduction of changes in the organization. They should decide the scale and shape of change and appropriate strategies for its implementation. The strategy may involve choosing between gradual (developmental) change and radical (transformational) change.[14] Similarly, the change strategy may also involve selection between participative approach and non-participative approach. The participative approach involves consultation and collaboration with employees and non-participative approach involves coercive action and practices to get the changes implemented in the firm.[15] The focus of the strategies should also be on tackling employee resistance to change at various levels of the organization. The strategies may include among others an improved communication and better employee involvement. An effective communication can facilitate better information sharing with the employees on the need for change in the organization. Similarly, managers may devise plans for actively involving the employees in the discussions and decision-making process relating to change management.

Implementation of Change Plans

This is the most crucial phase in the change management process. At this stage, the change plans of the organization are put into actual practice. Generally, the timing of implementation is important for the success of the change plans. Similarly, high level of clarity in method, measurement, and control of change also facilitates the process of implementation. Further, the factors such as focus, persistence and consensus can also contribute to the success of the implementation process. At implementation, managers must be ready for predicted and/or unpredicted resistances to change process. They must be ready with strategies and counter-strategies to tackle the resistance that might arise in the course of implementation.

As far as implementation is concerned, organizations may adopt the top-down or bottom-up change implementation process.[16] In the top-down process, the organization imposes the change from the top and acts quickly to achieve the desired result. The bottom-up process is a consultative process of change implementation and employees at different levels are actively involved in the planning and implementation process. The bottom-up is a consensus-oriented process and it co-opts resistance to change efforts.

Evaluation and Feedback

Since change is a continuous process, it is essential to evaluate the efficiency of the change management process. There must be a mechanism available in organizations to gather information on the extent of success of the change management process. Managers can use performance indicators such as change in sales, profitability, market size, labour turnover, and goal accomplishments to measure the efficacy of the change management process. The management may also gather feedback from the managers, employees and other stakeholders on various aspects of the change management process. Based on the evaluation and feedback, managers must revise the change strategies and process.

The Change Management Cycle

Macrimmon has suggested a change management cycle called REACTT, which describes the stages in the change management cycle. According to this cycle, the steps involved in the change management process are:

1. **Recognise (R)**—It involves the recognition of the future challenges that require changes in the people, processes, technology, system, structure and information.
2. **Evaluate (E)**—It involves understanding the alignment between the organization's goals and aspiration and its future challenges. It also involves the evaluation of the tasks to be performed.
3. **Adjust (A)—**It refers to fine-tuning the change plans and programme to suit the change requirements.
4. **Carry out (C)—**It involves the implementation of the change plans and programmes to achieve desired results.
5. **Track (T)**—It is a post-implementation evaluation to ascertain the scope for improvement in future.
6. **Treasure (T)**—It refers to treasuring what was learnt out of the change management process like familiarity with the process, development of expertise and asset specificity, which means "possessing unique knowledge of the peculiarities of a given system."[17] Box 18.2 shows the modularized organizational change management solution of a service provider.

Box 18.2
OCM Framework of Infosys

Many business organizations are turning to outside IT service providers as a way of managing their change requirements. Organizations outsource their change management process as a strategy to ease the transition, to build infrastructure and to ensure that all the key applications are in compliance with the government policies and regulations. Infosys's Organizational Change Management (OCM) framework for client companies is a case in point.

Infosys has developed a modularized OCM solution, which can be customized to suit the requirements of its client companies that have sourcing requirements. The OCM competency model of Infosys places emphasis on vision clarity, team integration, cultural alignment, effective sponsorship, stakeholders' commitment and aligned performance. According to this model, the prerequisites for successful change initiatives are organizational readiness, training and HR, stakeholders' assessments and communication. The OCM framework of Infosys is typically deployed during the planning and execution stage of the complex sourcing initiatives.[24]

Resistance to Change

Resistance is an inevitable and a natural employee reaction to changes initiated by an organization. Folger, et al.[18] define "resistance as employee behaviour that seeks to challenge, disrupt, or invert prevailing assumptions, discourses, and power relations." If the management has several compelling reasons for introducing changes in the organization, the employees may have equally forceful reasons to resist those changes. The foremost reason for employee resistance to change is the fear of losing the status quo in the organization. The change may have varying degrees of effect on the employees, resulting in different responses from each one of them. The intensity of resistance to change is normally influenced by the management's past action and credibility, existing industrial relations, strength of union and employees' perception of motive of change.

At the individual level, an employee may express anger, sadness or bitterness as reaction to change. This reaction may manifest itself in different forms both within and outside the organization. Some of the common forms of expression of resistance are absenteeism, reduced productivity and performance, loss of interest and concentration on the job. At the group level, employees and their unions may resist changes by resorting to industrial actions like strike, picketing or gherao. Typically, employees decide their response to changes based on their assessment of the end result of the change process and its implications for them.

Types of Resistance

Once the employees become aware of the changes, they count their gains and losses and then decide their response to the changes. Depending upon the outcome of their assessment, they may decide to either adjust themselves to the change or resist the change initiative. However, the resistance to change need not be obstructive or destructive all the time as sometimes the resistance could be positive and productive. Based on the final outcome of the employee resistance, the resistance may be classified into: (i) positive employee resistance and (ii) negative employee resistance as shown in Figure 18.3.

Positive employee resistance—Although most of the employees' resistances are branded as obstructions to the change management, some of the resistances indeed produce positive results for the organization. In case of positive resistance, the employees feel the need for change but want the change to be implemented as a collective and productive effort in a mutually-beneficial manner. When employee resistance provokes fruitful discussions, well-grounded debate and constructive criticism of the goals and the process of change, and ultimately leads to improvements in the change goals and the process, such resistance may be called positive resistance. The main concerns of employees in positive resistance are: fear of failure of the change process, the consequences of the change process for them, the attitude and ability of the change leaders, and independent decision making by the management in the change process.

Negative employee resistance—Employee resistances are generally categorized as negative resistances. Employees and their unions express negative resistances through actions such as striking, picketing, gheraoing, etc. In case of negative resistance, employees or their union attempt to block the change efforts through all possible means. Here, employees identify the flaws in the changes and use them effectively to sabotage the change initiative. The primary objective of negative resistance is ensuring the complete failure of change efforts. The main concerns of employees in negative resistance are: loss of job, authority and freedom; or increased difficulty, responsibility and accountability in the job. It is however the task of the managers to make the difference between positive resistance and negative resistance. In this regard, they should keep an open mind while introducing changes. They should never think that all resistances are harmful and must be crushed. Similarly, they should avoid thinking that all those questioning the changes are wreckers and have attitude problems.[19] Thus, managers must have a balanced approach in handling employee resistance towards change initiative.

Employee resistance may further be classified into: (i) active resistance and (ii) passive resistance based on the employees' behavioural response to the organization's change efforts.

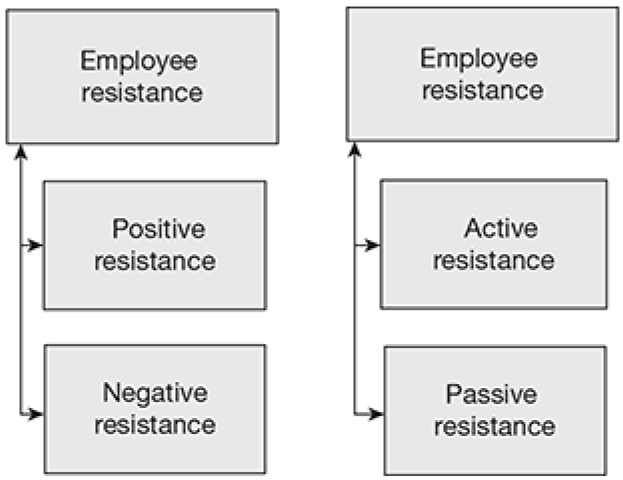

Figure 18.3
Types of Employee Resistance

Active employee resistance—In the case of active resistance, employees either negatively or positively express their response to the change efforts of the organization. They explicitly make their responses known to the organization regarding organizational change initiatives through words and deeds. Direct participation by employees in strikes, picketing and other disruptive actions are the manifestation of active employee resistance to organizational change process. Active resistance might enable the management to determine its strategic response as a part of the change management process. In this type, the employees force the management to understand that they have concerns about the goals and the process of change initiatives, and require improvements in or complete abandonment of the change efforts.

Passive employee resistance—In this type of resistance, employees never express their resistance through actions but somehow inform the management that they are not in favour of change. Outwardly, they neither support nor oppose the change initiatives of the organization. The reason for passive resistance could be the employees' indecisiveness, fear of reprisal by management, or bitter experiences in the past in similar situations. Further, the employees may resort to passive resistance when they have no alternative proposals to solve the problems requiring changes. Similarly, they may prefer passive resistance when they are afraid of the consequences of failure of resistance or doubtful about the real motives of the resistance leaders in opposing changes. Talking badly about the changes with co-workers, speaking ill of the organization, careless performance of the job, and adopting paradoxical standards towards change process are a few forms of passive employee resistance.

Symptoms of Resistance

There are various ways through which employees can demonstrate their resistance to the change initiatives of the management. Their efforts to defeat change initiatives may differ at individual, group and organizational levels. At the individual levels, the resistance is normally subdued and passive while it is vociferous at the organizational and group levels. Similarly, at individual levels the resistance is more spontaneous and less planned whereas the resistance at group or organizational levels is more planned and organized. We shall now see the important symptoms of resistance to change in organizations.

Resistance from employees: These are as follows:

1. Sudden increase in employee absenteeism
2. High labour turnover, including loss of high value employees
3. Non-participative and indifferent behaviour
4. Lack of initiatives from employees
5. Procrastination
6. Irate and uncooperative reaction to change initiatives
7. Insensitivity
8. Unprofessional conduct
9. Groupism
10. Dereliction of duties and responsibilities

Resistance from managers and supervisors: These are as follows:

1. Indulging in partisan politics
2. Sabotaging change process and initiatives
3. Information blocking and filtering regarding change initiatives

4. Inadequate discussion and negative remarks about changes with employees
5. Assigning inadequate resources, time and efforts for change initiatives

Strategies to tackle resistance to changes—In handling employee resistance to change, prevention is always better than cure. Management must have effective strategies and good practices to foresee and forestall resistance to change efforts of the organization. In this regard, some strategies for ensuring hassle free introduction of changes in the organization have been developed based on the guidelines provided by Cynthia D. Scott et al.[18]

1. The management must have good and valid reason for introducing changes in the organization.
2. It must ensure total and active involvement of employees in the change process.
3. The management must continuously assess the preparedness of the organization for change efforts.
4. There must be a constant review of the HR policies and practices to make certain that they support and not obstruct change.
5. Persons in charge of planning and managing changes must have high integrity and respect among the employees. The organization can have transitions management teams to plan, foresee, troubleshoot, harmonize and focus on change efforts.
6. The leadership in charge of change must ensure that their words and deeds are consistent and trustworthy at all times.
7. There must be adequate training and guidance for employees to help them acquire new values, skills and behaviours to successfully deal with a post-change situation.
8. Whenever and wherever necessary, external expertise must be sought to reinforce the direction in which the organization intends to proceed.
9. Developing and establishing symbols of change like new logos, slogans, newsletters to connect employee with changes and to seek their cooperation.
10. Acknowledging the struggles and sacrifices of people connected with the change process by rewarding them appropriately. There must also be a disincentive for negative resistance.

Why Change Initiatives Fail?

Managing change is generally tough, especially when it involves the accomplishment of long-term goals and requires best possible coordination among and cooperation of many people. A recent study has shown that only 25% of change management initiatives are successful in fulfilling the long-term objectives.[21] We shall now look at a few specific reasons why change initiatives fail.

1. Absence of well-defined and realistic change management plans and initiatives.
2. Lack of adequate support from the top management for change initiatives.
3. Inadequate communication about changes and the reasons for such changes.
4. Unwillingness among employees to adopt new attitude and behaviour required to make the change work.
5. Absence of any sense of urgency that drives the need to change among organizational members.
6. Disconnect between the members involved in the planning and execution of change management plans. Similarly, there may absence of coordination and even infighting among the team members engaged in the change management plan implementation.
7. The tendency among the change leaders to declare success even before the change management plan is fully executed and goals are fully achieved.
8. Absence of periodic measurement of the progress and direction of change and early interventions to set right the deviations, if any.
9. Lack of clear strategy among change leaders on when to accelerate or decelerate the pace of change.
10. Absence of incentives for employees in the change management plans. Change may fail to establish a link between the success of change initiatives and the employee's compensation.
11. Non-availability of technology needed for implementation of change management plan.
12. Adoption of a one-dimensional solution to the problem that requires change.

Strategies to Enhance Success in Change Management

Change is inevitable for any organization and hence managements undertake changes at various points of time. The reasons for change may differ from one organization to another and also from one period to another. For instance, some organizations may carry out changes to achieve growth while some others may change just to survive in the business field. Organizations continually make efforts to plan and implement changes to tackle many environmental challenges. However, all organizations may not succeed in their attempt to bring about desired changes. Even among successful organizations, the degree of success may differ from one organization to another and also from one situation to another. This is because some organizations are good at managing changes while others may not be so good and just struggle and miserably fail. We shall now look at the strategies that can enhance the success rate of change management.

- Organizations should develop a worthy vision and realistic change management plans for achieving success in plan initiatives.

- They should establish a change team that is fully supported by the senior management team.
- They need to integrate the change teams with other teams in the organization, like HR teams, transition management team, etc.
- The change initiatives should be accompanied with necessary organizational learning and development.
- There must be adequate emphasis on information sharing among the change leaders. Change leaders should also be listening to and communicating with the employees.
- There must be constant, clear and inspiring communication through various channels for every employee to achieve their true potential.
- Top management should develop a belief in the change initiatives and be positive about the outcomes of such initiatives.
- The change willingness of the organizational members should be periodically monitored and necessary steps to be initiated to constructively deal with resistance.
- Change leaders should learn to develop multi-dimensional solutions to problems that require changes.
- Management should ensure that the operational disruptions are kept to a minimum during change initiatives.
- Management should develop and implement specific risk mitigation strategies relating to employee retention.
- Continuous feedback on the efficiency of change management initiatives should be gathered and used for future improvements.

Richard H. Axelrod[22] has suggested some principles for improving the change management initiatives. They are: the principal of expanding the circle of involvement, principle of connecting people to each other, principle of communities for action and the principle of promoting fairness.

Organizational Restructuring

A successful change initiative in an organization typically facilitates strategic organizational systems to be well-aligned with the changed environmental conditions. Sometimes the change process may require among others a complete or partial organizational restructuring. Organizational restructuring involves adapting an organization to the demands of the changing external environment, depending upon the prevailing industrial scenario that necessitated changes in the structure and functioning of the organization.

Managers have to decide on the kind of restructuring required to make the organization flatter and leaner. In any form of restructuring, work is often redefined and hence workers are disturbed. This may result in resistance to the restructuring programmes. Here, an effective management must foresee the quantum and the cost of change and should devise appropriate plans to implement them with less resistance. Generally, a successful restructuring programme will lead to improved productivity and morale, reduced personnel turnover and improved organizational effectiveness and flexibility.

Summary

1. Change management is a process by which changes required in an organization are executed in a planned and controlled manner.
2. Three elements that drive organizational changes are processes, people and technology
3. The internal factors that cause organizational changes are: (i) changes in managerial styles, (ii) implementation of new technology, (iii) changes in the characteristics of the workforce, (iv) decline in the organizational performance and profitability, (v) employees' suggestions for improvement and (vi) conflict in the labour–management relations.
4. The external factors that cause organizational changes are: (i) change in economic environment, (ii) change in government policies, (iii) entry or exit of competitors, (iv) adoption of new strategies by competitors, (v) change in the cost of production, (vi) technology developments, (vii) changes in relevant laws and legislations, (viii) changes in labour market, (ix) shift in customers' tastes and preferences and (x) role of pressure groups.
5. Organizational change can be classified into developmental change and transformational change.
6. Steps in the change management process are: (i) defining the environmental problem that requires changes in an organization, (ii) determining the goals of the change process, (iii) deciding the strategies and actions for introducing changes, (iv) implementing the change plans and (v) evaluating and providing feedback.
7. Employee resistance may be classified into: (i) positive resistance and (ii) negative resistance. It may also be classified into: (i) active resistance and (ii) passive resistance.

Review Questions

Short-answer questions

1. What do you mean by change management?
2. State the characteristics of change management.
3. What are the objectives of change management?
4. Explain briefly the elements of organizational change.
5. Distinguish between developmental change and transformational change.
6. What is meant by the change management cycle?
7. Write a note on organizational restructuring.

Essay-type questions

1. Critically evaluate the causes of organizational changes with example.
2. Discuss in detail the different types of changes with necessary examples.
3. Enumerate the steps in the organizational change management process.
4. Examine the various types of employee resistances and identify the symptoms of resistance.
5. Managing change is generally tough, especially when it involves the accomplishment of long term goals. Discuss.
6. Describe the reasons for the failure of change initiatives and suggest strategies for improving the success rate of change management initiatives.

Case Study

Resisting for Change in Recruitment Policy with Times

Alectek Shoes is a manufacturer of popular shoes in the country. It is one of the oldest footwear manufacturers in India with a sizeable market share in the industry. It also exports considerable portions of its premium segment products to overseas markets. This company has a strong workforce of over 11,000 employees. It is engaged not only in manufacturing but also in marketing operations through its own retail outlets.

Being an old company, most of its HR policies are conventional and empirical. Based on its bitter experience in the past, the top management firmly believed that the candidates with a revolving-door approach towards a job (changing jobs frequently) are less committed employees and are prone to leave the organization early. The recruitment philosophy and policy of this company clearly reflected this and, understandably, discriminated against those candidates who changed their jobs frequently in the past. In fact, the HR people were instructed to eliminate the applicants with a poor track record of jobs stability, irrespective of their levels of skills and abilities. These candidates were eliminated by the HR department either by rejecting their application at the serutiny satage or by eliminating them in the very early phase of the selection process. Since its compensation packages are the best in the industry, the company had so far never faced any problem in finding the required number of people to fill the job positions.

Recently, the company developed a huge manufacturing facility in a metropolitan city located in southern India in order to double its production capacity. With this production expansion, the company was looking to emerge as India's leading footwear player. As part of this expansion plan, it decided to strengthen the manufacturing, sales and marketing division with increased workforce. It decided to conduct a major recruitment drive for filling all the new vacancies in addition to the routine ones. Obviously, the number of positions to be filled up in the company just swelled. The company conducted an extensive advertisement campaign to attract the best candidates for filling the available job positions.

The recruitment campaign evoked a good response in the sense that many prospective candidates applied for the advertised positions. However, the scrutiny of these applications revealed that a significant number of these candidates had poor job stability records as they seemed to have worked in different companies for short tenures. But for this shortcoming, these candidates were found to be suitable for the offered positions. Due to this unprecedented situation, the company was now in a quandary. If these candidates were eliminated, the company might not get a sufficient number of candidates with the required skills for filling all the existing vacancies. In contrast, if they were selected, the firm might not get a sufficient number of candidates with the required skills for filling all the existing vacancies. In contrast, if they were selected, the firm might face problems of unanticipated and untimely employee desertions and the resultant work disturbances.

However, the HR manager was clear about how this situation ought to be handled. He demanded drastic revisions in the HR policy to make it relevant for the existing labour market scenario. First of all, he wanted some major alterations in the recruitment policy to enable the organization to consider seriously and equitably the candidature of all the applicants, irrespective of their past track record about job stability. Next, he insisted that the company design and develop effective career development programmes for the employees immediately so that there were better career prospects available for them in the company itself. This should also obviate their need for leaving the company to seek better prospects elsewhere, he averred. Moreover, a good career plan would establish long-term relationships between the organization and the employee through better employee commitment and motivation. He also insisted on evolving plans for training these employees continuously as part of the skill enhancement exercise. These measures, he believed, would bring down the chances of employee desertion and associated problems.

However, the management did not buy his arguments. It raised serious doubts about the efficacy of the HR manager's proposal. It actually feared that a better trained and skilled employee would leave the organization early as there would be an increased demand for his skills in the labour market. It also felt that it was difficult to thwart a habitual job deserter from quitting the organization, however effective the career development programme may be. Thus, the management insisted on maintaining the status quo in recruitment policy and asked the HR manager to come up with more practical suggestions for solving the present problem.

However, the management did not buy his arguments. It raised serious doubts about the efficacy of the HR manager's proposal. It actually feared that a better trained and skilled employee would leave the organization early as there would be an increased demand for his skills in the labour market. It also felt that it was difficult to thwart a habitual job deserter from quitting the organization, however effective the career development programme may be. Thus, the management insisted on maintaining the status quo in recruitment policy and asked the HR manager to come up with more practical suggestions for solving the present problem.

Questions

1. What is your assessment of the whole situation in Alectek Shoes?
2. What is your opinion about the role of recruitment policy in the entire controversy?
3. If you are made the HR manager of Alectek Shoes, what would be your suggestion to solve the problem?
4. What more can the company do in terms of career planning and development activities of the firm vis-a-is the employee

attritions, besides the HR manager's suggestion?

Note: The solution for the above case is available at www.pearsoned.co.in/duraipom2e

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CHAPTER 19

International Management

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the meaning of international management
2. Describe the skill requirements of international managers
3. Enumerate the elements of international management environment
4. Discuss the functions of an international manager
5. Evaluate the challenges facing international management

India's Inspirational Managers

Anshu Jain is the co-chief executive officer (Co-CEO) of the Germany-based Deutsche Bank, the world's fourth-largest investment bank. This India-born investment banker with Deutsche Bank has earned a great reputation by transforming the company's investment banking into a profitable business. Anshu's strategic actions contributed to the steady growth of the investment banking division's earnings, which accounted for more than 70 per cent share in Deutsche Bank's overall profits. After becoming the Co-CEO, he placed Deutsche Bank at the forefront of a deep cultural change. He has introduced mandatory business conduct and ethics training for all employees. Anshu insists that the bank employees behave with the highest standards of integrity in all aspects of its engagement with clients; they reinforce operational discipline in the use of the bank's resources and they collaborate across functions to create a true "one-bank." Anshu received *Risk Magazine's* Lifetime Achievement Award in 2010 and the annual Business Leader Award from NASSCOM.

Introduction

When organizations get involved in international business, they feel the need for international managers.

International business refers to any business whose activities involve the crossing of national boundaries.[1] International management is often seen as a subset of international business. Generally, international business focuses on international transactions whereas international management concentrates on the management of such transactions, which are usually within the boundaries set by organizational goals and strategies.[2]

Countries and their economies have become increasingly interdependent leading to the presence of a global market. Organizations and their managements are thus compelled to develop a global perspective to operate in a global market. Understandably, many companies today need managers who are internationally minded and can thrive in an international context. Typically, the foreign direct investment by companies is another compelling reason for them to have international managers. International managers require knowledge of crucial variables in the global economic environment. They should also be aware of the different compositions and characteristics of the countries and regions of the world. For instance, managers need to know the population, trade volume, growth rate, labour cost, natural resources, financial positions, and the size of the market of the countries where their firms have business interests. Such knowledge of the global environment can help managers in identifying the opportunities and threats that might arise in the global operations.

Definitions of Important Concepts

Let us first look at the definitions of the important terms used in this chapter.

"An international business is any firm that engages in international trade and investment."—Charles W. L. Hill[3]

International business is defined as transactions devised and carried out across international borders to satisfy corporations and individuals."—Czinkota[4]

"International company is any firm that conducts business across frontiers from the smallest of export orders to the multi-million pound investment."—Michael Z. Brooke[5]

"International management is defined as the determination and completion of specific actions and transactions conducted in and/or with foreign countries in support of organizational policy."—Took and Beeman[6]

"International management is a process of accomplishing the global objectives of a firm by (i) effectively coordinating across national boundaries the procurement, allocation and utilization of the human, financial, intellectual and physical resources of the firm and (ii) effectively charting a path toward the desired organizational goals by navigating the firm through a global environment that is not only dynamic but often very hostile to the firm's very survival."—Arvind Phatak[7]

"International management is the process of planning, organizing, directing and controlling the organization which individuals (Managers) use to achieve an organization's goals when the organization is involved in cross border activities or functions outside its nation state."—*The Routledge Companion to International Management Education*[8]

Skills Requirement of International Managers

Though the skills requirements of international managers may differ depending on the nature and place of operations, all managers should possess a few common skills. According to Jason Loke Chee Shong,[9] effective global managers should have the skills and abilities:

- To deal with cultural diversity
- To manage changes and transitions
- To develop and operate in flexible organizational structure
- To communicate effectively in a cross cultural environment
- To develop and work in teams
- To acquire and transfer knowledge

To perform these activities effectively, international managers need to possess organizational skills, leadership skills, communicative and persuasive skills and, importantly, analytical and complex problem-solving skills. They should also have the ability to perform multi-dimensional roles by combining their technical skills and human resource skills. They should pool together right techniques, right resource and right technology to compete at the international levels.

Need for International Business

Companies may have a variety of objectives or reasons for having global presence. These objectives can be brought under three broad categories.[10] They are:

1. **Widening the markets**—Organizations typically seek to enter foreign markets when the domestic market becomes saturated. Usually, companies look for foreign markets for products that are standardized and have reached maturity stage in the product life cycle.[11]
2. **Reducing the cost**—Due to intense competition and decreased profits, organizations may enter the overseas market as a part of a cost-reduction measure. For example, cheap labour may act as a powerful inducement for companies to establish foreign operations. Companies may also prefer international operations to reduce transportation cost and to utilize the incentives and inducements offered by the governments of the host countries (i.e., foreign countries where business operations are carried out).
3. **Achieving strategic aims**—Companies may enter the overseas market for accomplishing strategic aims like: (i) diversification of strategic risks (ii) utilization of host country's specialized knowledge, capabilities and assets (iii) providing better care and service for customers in foreign countries (iv) meeting the international market demands quickly and (v) establishing good relationship with the general public.

Elements of International Management Environment

Typically, an international environment is a total global environment. This total global environment is made up of environments of those countries where a firm has business operations or foreign affiliates. Generally, the international environment is far more complex than the domestic environment. As shown in Figure 19.1, the international environment usually consists of economic environment, political environment, legal environment, technological environment and cultural environment. We shall now briefly discuss each of these environments.

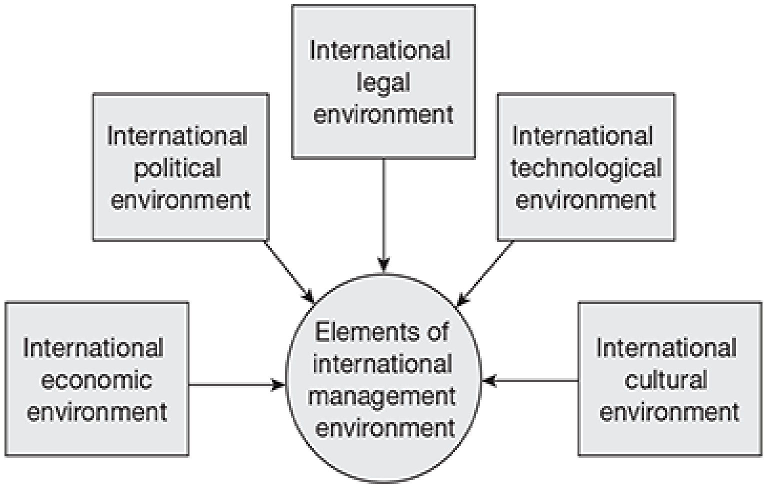

Figure 19.1
International Management Environments

International Economic Environment

The economic environment is often shaped by factors like economic system, taxation system, gross national product, per capita income, social infrastructure, the stage in economic development, natural resources, climatic conditions, wage levels, the nature and intensity of the competitions, currency convertibility, inflationary trends and membership in trade blocks. Demographic factors such as population and its literacy levels also influence the economic environment. In recent decades, globalization has emerged as an important phenomenon in the increasing interdependence of national economies in trade, finance and macroeconomic policies.[12]

International Political Environment

The major players in the global political environment are different international organizations such as the United Nations, World Trade Organization, International Monetary Fund, Word Bank and Asian Development Bank. The various countries of the world and different trade blocks like European Union also play important roles in shaping the political environment. Within a country, the political environment is shaped by factors such as form and ideology of the government, stability of the government, foreign policies of the government, social and economic unrest within the society and the strength of the opposition parties and pressure groups.

International Legal Environment

The legal environment of countries is affected by the laws governing the business firms. Specifically, legal environment is influenced by a country's legal system, patent and trademark laws, competition regulations, corporate governance and international agreements with other nations. The international legal environment is also influenced by the international law that prescribes the pattern of behaviour for its member-nations. International law is created by international treaties and conventions, international customs, international trade regulations, judicial decisions and teachings of various nations and general principles of law accepted by civilized countries.

International Technological Environment

Technology per se refers to the systematic application of scientific and other organized knowledge to practical tasks.[13] The technological environment of a nation is shaped by its technology policy, the type of technology used, the degree of technological developments and the speed with which new technologies are adopted and diffused. The rate of product inventions, process innovation, internet capabilities and penetration also indicates the technological environment of nations. International companies often view technological competence as essential for sustaining their international competitiveness.

International Cultural Environment

The cultural environment of a nation is shaped by the customs, values, beliefs, attitudes and norms practiced by its people. Companies engaged in international operations often face multiple and culturally-diverse environments.[14] This is because the cultural environment in international business is often characterized by different values, distinctive motivations and unfamiliar languages. In international business, the cultural environment of a host country may look unusual for an international manager belonging to the home country but the same culture may appear normal and natural to his/ her employees and consumers belonging to the host country. Cultural environment can affect international managers when they undertake business negotiations, product development, preparation of publicity materials, interactions with foreign customers, choose the foreign partners and decide the structure of international business venture.[15]

International managers must be aware of the environmental factors that motivate people from different countries and also their influence on international assignments. Managers must be aware of the company's needs abroad as well as the available opportunities. They should also have a good understanding of the cultural, political and operational challenges of the foreign markets. The prerequisite for successful international management is the clear and careful understanding of the cultural, legal, political, ethical and economic differences prevailing among nations and their people. International managers should be knowledgeable in finance, foreign currency, overall global market, etc.

Functions of International Managers

International manager is the title for managers who oversee the global operations of a company. International managers carry out the same basic functions as domestic managers but on a larger scale. According to Daft and Marcic, "the basic management functions of planning, organizing, leading and controlling are the same whether a company operates domestically or internationally."[16] The primary task of any international manager is to coordinate the activities and resources of the organization across international boundaries. Generally, international managers perform the purchase, production, sales, logistics and human resource functions in foreign countries for their organizations. In certain cases, international managers are entrusted with the responsibility of managing a company's entire foreign operations. In case of large organizations, multiple international managers will perform different functions like international sales and overseas manufacturing. We shall now briefly discuss the basic managerial functions performed by international managers (Figure 19.2).

Planning in International Business

International planning normally involves deciding how to do business globally. Planning in international business normally depends on a firm's nature of business operation, philosophy governing its method of operation and the country in which it chooses to operate. Generally, firms apply their own experience in domestic planning to operations outside their country. However, the blanket application of domestic planning techniques in international business environment may not be suitable or feasible. Often, it becomes essential for firms to suitably change their domestic planning approach to suit the international requirements. International managers must carefully monitor the environment while developing forecasts, goals and plans for international activities. In this regard, managers should provide due importance to the international political, economic, legal, technological and cultural environments. Specifically, international managers should analyse the government's strength and stability, its policies and attitude towards foreign investment, patent and trademark protection, nature and intensity of the competitions, ideologies of the principal political parties, etc.

According to Michael Z. Brooke,[17] the primary objective of international corporate planning is deciding a course of action for accomplishing corporate goals through appropriate systems and techniques. The other objectives served by corporate planning are:

1. To ensure that the overseas operations are adequately integrated into the organization's global strategies.
2. To expand the horizons of the head office.
3. To achieve the required level of delegation so that managers operating from different parts of the world participate in the decision-making system.
4. To make ensure that foreign operations have sufficient autonomy even while ensuring that they conform to corporate policies.
5. To foresee the plans and actions of the competitors by constantly watching their moves and scanning the environment.

The growing complexity of international operations, its complicated logistic requirements and the variety of factors that affect its environment have vastly increased the importance of corporate planning in recent decades.

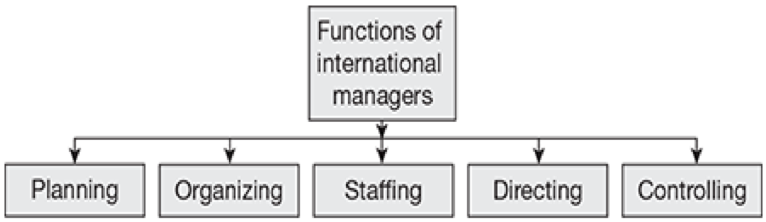

Figure 19.2
Functions of International Managers

Organizing in International Business

When organizations expand their operations internationally, they need to adapt their structure suitably. The new organizational structure should enable firms to adapt to the cultural and environmental differences associated with any international operations. Restructuring international organizations is always a complex task. This is because the culture, needs and expectations of the international customers and employees often differ from one nation to another.

In case of international business, a firm's choice of organizational structure depends on: (i) the location and type of its foreign facilities and (ii) the impact of its international operations on total corporate performance. The major issues involved in the determination of the organizational structure of international businesses are: (i) the degree of decentralization and (ii) the design of the formal structure. We shall now briefly discuss them.

Centralization vs. decentralization (vertical differentiation)—International firms should first decide where they want to keep the decision-making authority in their hierarchy. In organizations with high degree of centralization, high-level managers (normally above the country level) in the home country make all the vital decisions and the lower-level managers in foreign countries just implement those decisions. In contrast, lower-level managers (normally operating at or below a country level) make and implement the important decisions in firms with a decentralized set up. While deciding the degree of decentralization, organizations should try to balance between centralization (necessary for global integration) and decentralization (necessary for recognizing local differentiation).

The design of the formal structure (horizontal differentiation)—The designing of formal organizational structure is necessary for effective deployment of organizational resources to achieve the strategic goals. It actually involves steps like: (i) designing jobs, (ii) grouping jobs into units in the form of departments, subsidiaries, and divisions and (iii) establishing patterns of authority and reporting relationship between jobs and units. Structuring, which involves the grouping of jobs and job holders in a firm, can be done on different bases. From an international business perspective, the important kinds of organizational structures are: (i) international division structure (ii) international geographic structure (iii) international product structure and (iv) international matrix structure (Figure 19.3). We shall now briefly discuss each of these structures.

Kinds of International Organizational Structure

International division structure—International division is a separate division in a firm formed exclusively for managing its international operations. The purpose of the international division structure is to group all international activities into a single division within an organization. International divisions are normally located within each nation where the firm's business is active. These international divisions may be managed by higher-level managers who may control the operational and marketing aspects of the firm's products or services. Each international division performs its own activities through its own functional departments such as finance and marketing. The international division enables a firm to demarcate its domestic and international activities. However, the relationship between domestic and international division is usually complicated. The leaders of the international division need to be specialists in almost all functional areas. They should also possess adequate knowledge of foreign exchange and export documentation. The advantage of international division is that it centralizes management and coordination of international operations.[18]

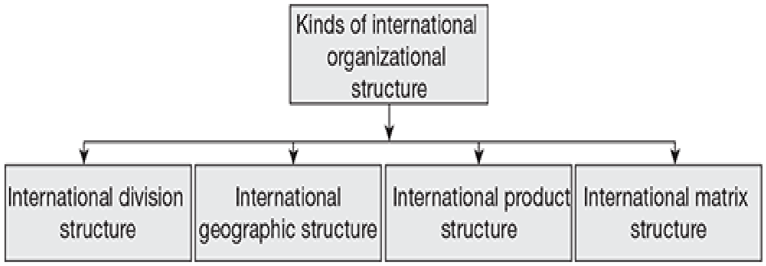

Figure 19.3
Kinds of International Organizational Structure

International geographic or area structure—In this kind of structure, the international activities of a firm are grouped on the basis of geographic regions. A firm may classify its international operations based on geographic regions, such as Asian division, European division, American division, etc. In this type of structure, decision making and control is normally decentralized to the level of individual geographic regions. The regional headquarters is usually entrusted with the responsibility of managing the international operations in their respective geographic area. International geographic structure is most suitable when each region or market of a firm is different and unique. Similarly, this structure can be effective when a firm has extensive international operations that are not dominated by any one nation or region.

International product structure—This structure is preferred by firms when they deal with a variety of diverse products. In this structure, activities of a firm are first divided on the basis of its product line (called product division) and then these product divisions are further classified as domestic unit and international unit. The weakness of this structure is that there may be duplication of some activities like research and development and marketing in domestic and international divisions. This structure also provides limited scope for knowledge sharing or transfers among different divisions.

International matrix structure—An international or global matrix structure is an arrangement that blends the products, functional and geographic structures to optimize the benefits of a global strategy.[19] This is basically a two-tier structure. In this structure, each leader will report to two bosses belonging to two different divisions, say, product division and geographic division. The purpose of establishing matrix structure is to provide a common focus for the leaders of the product and geographic groups. This structure facilitates joint decision making by these leaders by unifying their activities. This structure also makes the groups more interdependent, which leads to effective resource and information sharing. However, the coordination of the activities of the product and geographic groups can be difficult. Similarly, fixing responsibility for the result of operation may also be challenging as managers may try to avoid it in case of failures. Dual reporting by leaders of this division may also create conflicts in the relationships.

Due to the complex nature of international operations, organizations often tend to adopt a mixed form organizational structure to get the benefits of different structures and to fulfil their corporate goals effectively. Obviously, the matrix structure is the best-suited structure for implementing the global strategies of the firms. This is because this structure can ensure that all the organizational resources and best practices are shared by all the country units.

Staffing in International Business

Every nation has a distinct culture that influences the management style and corporate culture of the organizations functioning in that country. Further, every country has a unique set of intricate laws that govern employment and industrial relations.[20] When HR practices are brought from abroad (home country HR policies), they may meet with employee resistance and eventual failure if they are not adapted to the local conditions. Hence, organizations are required to develop need-based, nation-specific HR practices after considering the specific laws, culture and language of the country. We shall now briefly discuss the important HR practices of international companies.

International recruitment—While recruiting people for international operations, international managers must identify the global competitiveness of the potential applicants at the time of the recruiting process. It is essential that the workforce of an international firm is aware of the nuances of international business. Understandably, the company must keep international knowledge and experience as criteria in the recruitment and selection process.[21] Besides, international firms must have a fairly good idea of the skills and availability of human resources in different labour markets in the world. A truly international firm would insist on hiring people from all over the world and place them in the international business operations of the firm.

International selection—Even though cultural differences influence the selection procedure to some extent, firms tend to follow similar criteria and methods worldwide. This is due to the fact that the end objective of any selection process is to choose the most capable persons for the job. The selection criteria for international jobs usually revolve around the five core areas, namely, behaviour, attitude, skills, motivation and personality. Specifically, the focus of selection for international operations normally includes cultural adaptability, strong communication skills, technical competence, professional or technical expertise, global experience, country-specific experience, interpersonal skills, language skills, and family flexibility.[22] Employers around the world usually rank personal interviews, technical competency and work experience in similar jobs as important criteria for selection.[23]

International firms, while choosing employees for overseas operations, usually prefer people with (i) highly developed technical skills, (ii) good language and communication skills, (iii) tolerance towards other culture, race, creed, colour, habits and values, (iv) high level of motivation, (v) stress resistance and (vi) goal-oriented behaviour. Finally, at the time of selection for international assignments, an organization should consider any previous overseas experience, family circumstances and the cultural-adaptability level of the candidates aspiring for global jobs.

International training and development—The main purpose of employee training remains the same for all companies, regardless of the region or country where they are located. In fact, managements everywhere rank, “enhancing technical abilities,” as the main objective of providing employees with training. Thus, the goals of training programmes are usually similar across countries.[24] Global training is absolutely essential since jobs, people and organizational structures vary from one nation to another. International companies usually aim at standardizing business and HR practices across the world through necessary employee training and management development programmes. Box 19.1 shows the international development programme of an internationally reputed company.

International compensation—International compensation normally includes base salary, benefits and perquisites, long- and short-term incentives. Compensation policy is a tricky issue for international management. This is because the wage level for the same job may differ between nations due to exchange rate fluctuation, cost of living, local laws governing wages, among other factors. Thus, matters relating to compensation naturally call for the involvement of the top-level management. The nature and number of persons required, the compensation policy of the organization, its ability to pay and the economic environment of the host country are some of the factors which greatly influence the compensation decision of international companies.

Box 19.1
International Development Programme (IDP) at Nestlé

Training of overseas employees is an extremely important issue for almost all multinational companies. This is because overseas employees often have varying attitude towards their work, leisure, conduct and other behavioural aspects. The attitude and behaviour of overseas employees may not fully fit with the expectations and standards of the MNCs. It hence becomes essential for international companies to familiarize its people with work cultures and ethics, disciplinary systems, operating procedure and efficiency standards through international training programmes. The international development programme of Nestlé is a case in point.

Nestlés culture, developed over 140 years, is strongly founded on the basic ideas of fairness, honesty and long-term thinking. As a part of its international development programme (IDP), it provides international experience and develops leadership skills for its managerial people. The different stages involved in its international development programme are: (i) gaining global visions, (ii) building commercial acumen and (iii) preparing for a permanent role. Performance and talent calibration, mentoring and coaching programme, exposure to senior manager, and peer coaching are the important techniques adopted in its international development programme.[30]

International performance evaluation—The development of an appropriate system of performance management is one of the critical tasks in international management. Performance evaluation, in general, refers to evaluating the employee's current and/or past performance against his standard performance with the aim of identifying and eliminating performance deficiencies and improving the employee's current performance. International performance evaluation primarily aims at evaluating the expatriates and foreign employees. In addition to evaluating the general performance, international performance management should assess the ability of expatriates to: (i) manage a workforce with sharp cultural differences, (ii) understand the complexities of international business and (iii) understand the reciprocal relationship between the interdependent local and foreign operations of the company.

International employee safety and health—Employee safety and health care facilities in plants often differ from one country to another in their state of condition and modernization, depending upon the local laws and regulations. International companies may either follow the local laws in providing health and safety facilities or adopt uniform health and safety policies across all locations without violating the prevailing laws.

Directing in International Business

Directing function in international business involves motivating employees, directing the activities of others, choosing the most effective form of communication channel and resolving conflicts. We shall now briefly discuss the important elements of directing, namely, leadership, communication and motivation.

Leadership—Leadership in an international business is more complex than in domestic business. International leaders need to provide strategic guidance essential for successful management of global organizations. Leaders of global organizations must ensure that their firms have the required level of efficiency, flexibility and learning orientation. The important qualities required of global leaders are as follows:

1. Global mindset that encourages openness to and awareness of diversity across cultures.
2. Willingness to commit financial, human and other resources necessary for the accomplishment of the firm's international goals and plans.
3. A global strategic vision that envisages what the firm wants to be in the future and how it will realize it.
4. Willingness to invest in human resources that are capable of managing the complexity, uncertainty and learning requirements associated with any global firm.

Communication—When companies enter international business, they change not only their structure but also their communication strategies. They tend to develop new communication strategies for internal as well as external communications.[25] While internationalizing the business operation, communication becomes critical to the success of the business initiatives. This is because international expansion requires a firm to deal with different cultures in all aspects of the organization.

However, the changes required in the communication strategy of a firm depend on the stage of globalization of its business operation. For instance, an organization involved in import and export from its own country (home country) may not require much international adaptation and involvement with other cultures. At this stage, the need for communication is minimal as the firm is not directly involved in any business operation in foreign countries. In contrast, a firm with international divisions in other countries may require an efficient and divergent communication system. People working in the international division should specialize in intercultural communication as such divisions normally have a mixture of the host country (where the division is located) and home country nationals.

Successful communication in a global firm means the presence of a solid and well-thought-out structure for the communication process. The major problem in international communication conducted across culture is that people from one culture may not be able to understand the culturally-determined differences in communication practices. Since international business communication is often affected by these cross-cultural differences in people's perception and understanding, it is essential for international managers to be familiar with cross-culture management.

Motivation—Motivating foreign employees is a complex problem for many international firms. The needs and priorities of the employees differ from one country or region to another. In western countries mobility, compensation, challenges in the work and interdependence are viewed as important motivating factors for employees. In contrast, job security, social benefits, working hours and holidays are seen as important for motivating employees of developing nations.[26] Managers of international business firms should have good knowledge of the various theories of motivation and also a practical exposure necessary for maintaining a highly-motivated workforce. Managers must understand exactly what motivates employees in the country of their operation. They must also be aware that the cross-cultural differences can affect employees in several ways.

According to Abel Adekola,[27] employees' motivation will improve irrespective of organizational culture, if practices such as goal-setting, performance feedback and valued rewards are introduced in international business. In contrast, promotion, rewards and discipline should be introduced as motivational measures only after examining the existing organizational culture. Many international business organizations often use employee motivation as a way of hiring people who are the right fit for the organization. It is therefore essential for international managers to assess the local climate and expectations and respond with a suitable mix of incentives to motivate their employees.[26]

Controlling in International Business

The primary purpose of controlling in global organizations is to ensure the presence of proper strategic, operational and tactical plans across the countries of operations. International controlling process involves the: (i) establishment of standard performance, (ii) measurement of actual performance, (iii) comparison of actual performance against the standards and (iv) initiation of corrective actions, if necessary. However, controlling is an important but challenging function for managers in international business.

Geographic distances, cultural differences, political risk, language barriers, security issues, currency exchange rate fluctuations, intra-firm business transaction (transfer pricing) and legal restrictions involved in international business make controlling a difficult managerial function. Further, country-specific practices relating to bonuses, pensions, holidays and vacation days besides the trade unions' strengths also restrict managers' freedom to operate and control in an international environment.

Approaches to Control in the International Business Environment

Libs and Weigenstein[28] suggested three approaches to control from an international perspective. As shown in Figure 19.4, they are: market approach, rules approach and cultural approach. The relevance and dominance of approaches may differ from one organization to another. We shall briefly discuss each of these approaches to control.

Market Approach

Output control is an important method in market approach. The output control system involves objective measuring of results. For instance, the sales people may be allowed to achieve the sales targets using individual strategies and held accountable for results only. This approach is better-suited for organizations where performance requirements can be clearly specified. In this market approach to control, competition, supply and demand, contractual agreement and external market forces are the important forces that govern the relationship among organizational units. Market approach to control is also viewed as a realistic method of implementing control in multinational organizations.

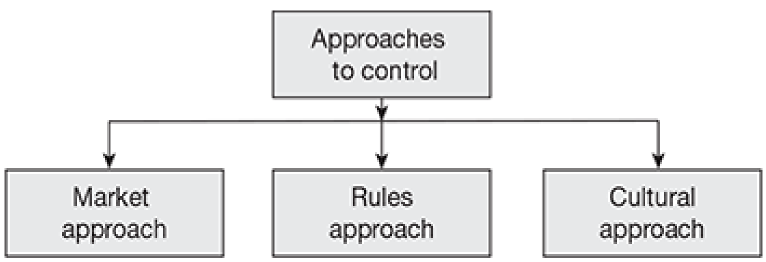

Figure 19.4
Approaches to International Control

Rules Approach

Rules approach uses rules, regulations and procedures for achieving the necessary control in organizations. Budgeting, planning, performance evaluation, formal reports and hierarchical structure are a few important techniques available for controlling purpose. Personal supervision is the essence of the rules-based approach. Generally, the rules approach to control is an efficient method for organizations with a high level of performance ambiguity. This approach is suitable for organizations that operate in a relatively stable environment. This is because this approach mostly works effectively in environments that allow adequate time to respond to feedback information and to make correction and adjustment in a controlling process. Since international environment is often characterised by instability and high level of uncertainty, rules approach may not be effective for international organizations.

Cultural Approach

Culture, which means the shared beliefs, values, norms and assumptions, influences the behaviour of the people of a firm. In cultural approach, organizational members are encouraged to exercise self-control and abide by the cultural norms and expectations. This approach insists on group norms, peer pressure, less bureaucratic procedure and a “loose-knit” organization for achieving effective control. Since goals, values and norms are internalized, firms may require little or no personal supervision and formal control to achieve results. A cultural approach can work effectively even if there is a situation uncertainty or performance ambiguity. Internalization of norms and rules facilitates quicker response to feedback information. Since the cultural approach can manage performance ambiguity and situation uncertainty more effectively, it is best-suited for international businesses. Wider applicability of this approach makes it superior to market approach and rules approach.

Cross-cultural Management

Since culture is a complex phenomenon, the cross-cultural environment of a global company is capable of producing both positive and negative results. For instance, organizations that keep a culturally-diverse workforce may achieve better creativity, productivity and wider business opportunities. However, the same cultural differences may also act as a hurdle to the success of international management due to communication bottlenecks. In all these, the effectiveness of communication in the cross-cultural environment makes the critical difference between success and failure. To reduce cross-culture-related troubles and barriers, global managers must be well-trained to understand, acknowledge and adapt to cultural differences.

Since companies operating at the global level continuously need people who can operate in a cross-cultural environment, firms should focus on aspects like cultural awareness, multiple communication techniques and styles, language familiarization and the application of relevant technology in their training programmes.

Such training is necessary for the successful management of diverse group of employees in the cross-cultural environment of the firm. The international HR department can organize cross-cultural training to expose the employees to other cultures in a planned and deliberate manner to enable them to acquire functional and communication skills essential for the cross-cultural environment. In this regard, many international companies also apply global code of conduct to regulate the behaviour of their employees in a cross-cultural environment. Box 19.2 shows the global code of conduct of a giant multinational company.

Box 19.2
Global Code of Conduct of PepsiCo

Due to changes in the global economy that contributed to the growth of multinational companies, many organizations began to feel the need to have a voluntary code of conduct to regulate their business as a part of their corporate responsibility. In the early 1990s, US companies began the practice of introducing codes of conduct, which then spread to European companies. The global code of conduct of firms may range from mere declaration of business principles applicable to international operations, to more substantive efforts at self-regulation. Typically a global code of conduct focuses on two important domains, namely, the environment and social conditions. The global code of conduct of PepsiCo is worth mentioning here.

PepsiCo views its global code of conduct as its roadmap and compass for doing business the right way. PepsiCo believes that the observance of a code of conduct by its employees would enable them to show respect in the workplace; act with integrity in the marketplace; ensure ethics in their business activities and perform work responsibly for the shareholders. PepsiCo's global code emphasizes on diversity and inclusion, human rights, health and safety, anti-discrimination, anti-harassment, anti-violence, anti-corruption, anti-bribery, anti-money laundering, and international trade controls. It also focuses on the avoidance of substance abuse, conflicts of interest, political activities and business gifts in international operations.[31]

Challenges Facing International Management

Though the challenges facing managers in international business environment may differ from one region to another, a few common problems are discussed here.

Cultural Diversity

Countries differ widely in their cultures. These cultural differences necessitate the introduction of country-specific management practices. International managers may find it difficult to motivate and lead people from a variety of cultures. They may also find it equally difficult to be able to build effective teams in firms with sharp cultural diversity.

Complexity of the Workforce

When companies employ people from both the host and home countries, they may create difficulties in HR practices like compensation fixation. For instance, international managers may find it difficult to balance the compensation-related demands of the employees from the developing countries and developed countries. Managers may be required to take on international perspectives on hiring, training and development, compensation and labour relations aspects of the employees.

Difficulty in Communication

Top managers may face problems in conducting face-to-face communication with and personal supervision of employees working in foreign countries. The requirement of face-to-face communication cannot be replaced even by a sophisticated communication system in international operations. Personal supervision of employees is also a problem in international operations.

Divergent Economic Systems

Different economic systems like free enterprise and regulated economy necessitate different organizational practices. The economic systems also influence labour costs, working hours, the nature and number of holidays, employer and employee rights, and so on. Managers in global firms should take into consideration the country-specific economic environment and system while determining the organizational policies and practices.

Complex Legal and Industrial Relations Issues

Each country has unique legal and industrial relations practices. For instance, legal systems in some countries permit hiring, firing and employee lay-off at will. But, in some other countries, separation of employees may be a time-consuming, expensive and cumbersome process. Similarly, factors determining industrial relations may differ from one country to another. In some countries, policies on issues like wages and benefits are determined by employers alone or in consultation with the workers' union. In other countries, labour laws largely determine the wages and benefits and other HR policies.

Ethical Dilemma

International management often creates difficult ethical dilemmas for managers. An ethical dilemma is actually a problem where a person has to choose between a moral and an immoral act. Due to the differences in cultural and legal setting of nations, international managers may often face with ethical and cultural dilemma in their dealings with employees, customers, government and others in the country of their operations. For instance, international managers may be faced with a tricky situation of being involved in corruption without even knowing it sometimes.[29] In certain cultures, offering bribes to get the business transaction done is viewed as acceptable practices. In contrast, it is viewed as a serious offence in certain other cultures. Therefore, it is in a firm's best interest to provide ethical training to its employees, to help them identify ethical and unethical behaviour

These challenges may compel international firms to undertake country-specific management practices based on the cultural beliefs and legal practices of the place of operation. Certainly, a better internal coordination can help a firm to gradually reduce the adverse effects of cultural and other differences in its operating environment.

Summary

1. International management is defined as the determination and completion of specific actions and transactions conducted with foreign countries in support of organizational policy.
2. Objectives of international business are widening the markets, reducing the cost and achieving strategic aims.
3. The international environment consists of economic environment, political environment, legal environment, technological environment and cultural environment.
4. Functions of international managers are: international planning, international organizing, international staffing, international directing and international controlling.
5. The important kinds of organizational structure are: (i) international division structure, (ii) international geographic structure, (iii) international product structure and (iv) international matrix structure.
6. The major HR practices of international companies are: international recruitment, international selection, international compensation, international performance evaluation and international employee health and safety.
7. Directing function in international business involves international leadership, international communication and international motivation.
8. Three approaches to control from an international perspective are: market approach, rules approach and cultural approach.
9. Challenges facing international management are cultural diversity, complexity of the workforce, difficulty in communication, divergent economic systems, complex legal and industrial relations issues and ethical dilemma.

Review Questions

Short-answer questions

1. Define the term international management.
2. What do you mean by international business?
3. What are the skill requirements of international managers?
4. What do you mean by horizontal differentiation?
5. Distinguish between centralization and decentralization?
6. Explain briefly the objectives of multinational companies.
7. Write a short note on cross-cultural management.

Essay-type questions

1. Critically evaluate the different elements of international management environment with relevant examples.
2. Describe the functions of international managers with suitable examples.
3. Enumerate the different kinds of organizational structure of international business organizations.

4. Examine the important HR practices of international companies.
5. Discuss the directing functions of international managers with appropriate examples.
6. Illustrate with example the various approaches to control in international business environment.
7. Explain the challenges facing international management.
8. International management is the process of accomplishing global objectives of a firm. Discuss.

Case Study

Ethical Dilemma of an MNC

Fine-X is a multinational company with its head office in New York and subsidiaries in 15 countries. One of its subsidiaries is located in Gurgaon, India. This company is engaged in the production of breakfast cereals, coffee, confectionery, dairy products, ice cream, pet foods, snacks and baby food. Fine-X has 10 factories and a large number of co-packers across India. The business principle of this company is based on the ideas of fairness, honesty and long strategic initiatives. It has also adopted all the 10 principles of the United Nations Global Compact and mainstreamed these principles in its business activities carried out around the world. Principle 10 of Compact insists that businesses should work against corruption in all its forms, including extortion and bribery. The adoption of the tenth principle committed this company not only to avoid bribery, extortion and other forms of corruption but also to develop policies and concrete programmes to address corruption. Being an American company, it should also strictly adhere to the The Foreign Corrupt Practices Act of 1977 (FCPA)—a law that prohibits bribery of foreign officials.

However, Fine-X often found itself on the wrong side of the norms in certain foreign countries including India. It found doing business in India without indulging in bribing and other corrupt practices almost impossible.

While interacting with certain levels of bureaucracy, the management of this company had come across corrupt officials making unlawful pecuniary demands that they could not meet legally. For instance, this company has been waiting approval from governmental agencies and officials for commencing operations at one of its new manufacturing plants in the country for the past 10 months. Such inordinate delay in getting the necessary approval has adversely affected its market expansion plans and also the profit margin. The delay has also given sufficient time to its competitors—both domestic and multinational—to prepare themselves for the new situation and to counteract. Any more delay in the approval process may even cost the country-level managers their jobs. At the same time, indulgence in any form of corrupt practice may invite punitive actions by their top management leading to their possible ouster from the job. The top management is now facing a tricky situation.

Questions

1. How do you understand and assess the situation faced by Fine-X in India?
2. What should they do to overcome their problems in obtaining approval for commencing operations in their new manufacturing plant?
3. What policy measures are needed to avoid the recurrence of such incidents in Fine-X in the future?

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Editor—Acquisitions: Pradeep Kumar Bhattacharjee

Editor—Production: M. Balakrishnan

ISBN 978-93-530-6539-3
e-ISBN: 978-93-895-8803-3

First Impression

Published by Pearson India Education Services Pvt. Ltd, CIN: U72200TN2005PTC057128.

Head Office: 15th Floor, Tower-B, World Trade Tower, Plot No. 1, Block-C, Sector 16, Noida 201 301, Uttar Pradesh, India.
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Compositor: WinMac Solutions, Chennai.