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MANAGEMENT

Concept, Practice and Cases

About the Authors

Dr Karminder Ghuman is the Dean (Academic Affairs) at Chandigarh Group of Colleges, Mohali. He is also the Dean (Faculty of Management) at this institute. He is a member of the Board of Studies (Business Administration) of Punjab Technical University, Jalandhar. He has worked with the Ministry of Education and Ministry of Tourism, State of Eritrea (Africa) as a trainer and consultant and has been a guest faculty at leading institutes of north India such as Mahatma Gandhi State Institute of Public Administration, Chandigarh, Army Institute of Law, Mohali, PTU's Gian Jyoti School of TQM & Entrepreneurship, Mohali. He has nearly 13 years of experience in teaching, research and industry. He has co-authored a textbook on *Rural Marketing* (Tata McGraw Hill).

Dr K Aswathappa is the former Director, Canara Bank School of Management Studies, Bangalore University, Bangalore. He has nearly 30 years of teaching experience and has served several universities as a member of the board for MBA and M Com courses. A prolific writer, he has authored 15 books and many articles. He is the author of best selling books like: *Human Resource Management*, *International Business*, and *International Human Resource Management* published by Tata McGraw Hill.

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KARMINDER GHUMAN
Dean (Academic Affairs)
Chandigarh Group of Colleges,
Mohali, Punjab

K ASWATHAPPA
Former Director
Canara Bank School of Management Studies
Bangalore University, Bangalore

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Dedicated
to

My parents, Gurmail Singh and Rajinder Kaur,
my wife Preeti, and son Karampreet

Karminder Ghuman

My parents

K Aswathappa

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Preface

The Need for This Book

This book demonstrates to a student of business management, conceptually as well as practically, how to manage people and work in an effective manner. It not only provides a sound conceptual foundation but also describes the application of fundamental management skills in the organisational setting to enable the evolution and growth of a professional manager. A sincere attempt has been made to develop a comprehensive literature on management that is an optimum balance of theory and practice. This book includes descriptions of experiences of people who actually manage other people, and presents the essence of the works of eminent academicians in the field of management. A student can pick proven ideas from the bouquet of thoughts and principles that have been put at work effectively and successfully in live projects. Regular practice of these concepts can provide an understanding of the necessary professional skills required for more complex projects, and large routine management effort, mandatory for effectively managing complex business programmes.

Focus

The focus of the book is not just on 'what it is' but also 'how to do it'. This focus has been deliberately created to build-in a bias towards application for students who have to eventually become practising managers. It helps a student understand how to plan, execute, communicate and control the execution of tasks, step-by-step, and effectively, in the complex and demanding business scenario.

Organisation of the Text

The contents of the book have been divided into four distinct sections related to introduction to business, overview of management, functions of management and applications of managerial concepts, to make it a comprehensive book in the domain of management. Further, the content within each chapter is generally presented in three subdivisions: the conceptual background, application perspective, and latest research in that area. This presentation enables the student to draw whatever he/she requires for his/her purposes.

The fourth section of the book deals, in an in-depth manner, with the application of managerial concepts to specific business situations. The key applications and managerial approaches like MBO, TQM, change management, managing different forms of business organisations, creativity and innovation, technology management, knowledge management and learning organisation and American, Japanese, Chinese and Indian management practices have been dealt with in great detail in separate chapters.

Highlights of the Book

The key highlights of the book can be outlined as follows:

(a) This book is rich in latest empirical research drawn from internationally renowned journals like Harvard Business Review, California Management Review, etc. Although it cites latest applied research, the flow of the text is smooth, easy to read and comprehend.

(b) Most of the chapters end with an interesting case study, based on the Indian context, which can be discussed within a single class session. This enables the teaching of all the concepts in that chapter through the case method, or supporting of conceptual teaching with a case to make the discussion clear to the student from an application point of view.

(c) The key areas of management like leadership, communication, motivation, power and authority, team building, decision-making etc. have been dealt with great in-depth insight, so that they not only impart knowledge, but also empower the students to become effective managers.

(d) Latest Indian and global examples have been provided in a good number to demonstrate to the students how different concepts are being applied in the corporate sector, especially in the Indian context in present times.

(e) The language of the book is very simple and its flow is student-friendly, which will help the students during their preparation for the examinations.

This book will also serve as a desk reference for the practising manager, because it has an optimum blend of theory as well as practice. We sincerely believe that the readers will find the information being presented in this book useful.

Karminder Ghuman
K Aswathappa

Acknowledgements

This book delves into the extensive literature that has already been developed by eminent academicians, practitioners and researchers. The authors acknowledge these people for their works and ideologies incorporated in this volume. The material contained herein has been assimilated and modified to sensitise management students to develop essential and fundamental managerial skills.

Dr. Ghuman in particular expresses his heartfelt gratitude to Ishmael Pigman, an experienced project manager, for being a mentor and clarifying the managerial thought process. He is extremely thankful to Ms. Bharvi Mahajan, for her valuable support, Dr. Monika Aggarwal for providing valuable inputs for the development of some of the case studies included in this book, and Mr. Nirmal Singh for his valuable support in typing the script.

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Karminder Ghuman
K Aswathappa

Visual

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand what is business
- understand the purpose and characteristics of a business organisation
- understand what makes a business organisation excellent
- understand the characteristics, advantages and disadvantages of different forms of business organisation
- understand the process of formation and winding up of a company
- understand the most important factors to be considered while choosing a particular form of ownership

Learning Objectives

Each chapter begins with learning objectives which outline what that chapter aims at achieving and what the student should know on its completion.

Exhibit 1.1 Contents of Partnership Deed

A Partnership deed generally includes the following elements.

- Name of the partnership firm.
- Names of the partners, extent of the contribution of each partner in the partnership firm and the proportion in which profits and losses are to be divided among the partners.
- Permanent address of the partnership.
- Duration of the partnership.
- Nature of the business to be carried out by the partnership firm and its aims and objectives.
- Rights, powers and duties of different partners.
- Names of the person(s) who have the authority to manage the partnership firm and have the authority to sign cheques.
- It should ideally include the procedure for the dissolution of the Partnership firm and an arbitration clause in case of any dispute or disagreement among the partners.

Exhibits

Exhibits have been provided within the chapters which provide additional information on the topics discussed in the chapter.

Walkthrough

Figure 5.1 Managerial Hierarchy

Figures and Tables

The figures illustrate the concepts discussed in the chapter, while the tables give out details pertaining to these concepts.

Table 5.1 Interpersonal Roles of a Manager

Nature of Role	Description of Actions	Examples of Corresponding Roles
Figurehead	Symbolic leader of the organisation, Performs duties of social and legal character	Attending ceremonies, hosting events, representing the organisation at public forums
Leader	Motivating subordinates, Influencing their attitude and behaviour	Subordinates have to be led for a motivated performance most of the time.
Liaison	Establishing a network of contacts within and outside the organisation	Attending events and meetings, taking care of business correspondence, etc.

Visual

Points to Remember

(a) Management refers both to the person(s) who perform the act(s) of management as well as the process that involves planning, organising, resourcing, leading, directing and controlling different activities for the accomplishment of desired goals.

(b) Management is the art of getting things done through people. It the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims.

(c) The connotations associated with management are: It is a goal-oriented and an integrative process, an intangible factor of production, a system of authority, a discipline, a profession and a dynamic function.

(d) Management is both science and art.

Points to Remember

Each chapter ends with points to remember. This enables the student to make a quick recap of the important points covered within the chapter.

Review/Discussion Questions

1. Define management.
2. What is the nature of management?
3. Whether management is science or art?
4. Can the fundamentals of management be applied universally?
5. What are the functions of management?

Review/Discussion Questions

These questions given at the end of the chapter encourage students to think about and discuss the concepts given in that chapter.

Walkthrough

Field Exercises/Class Exercises/Group Projects

1. Students can spend one day with a manager in an observation mode and try to figure out the routine and practices adopted, role performed and the skill employed by him/her, throughout the day. These observations can then form part of a class discussion facilitated by the faculty to bring forth the nature of managerial effort undertaken by a manager in his/her day-to-day life.
2. Students can identify an activity the performance of which encompasses implementation of all the functions of management. Students should submit a written assignment reflecting the application of different functions of management while executing that activity.

Field Exercises/Class Exercises/ Group Projects

These exercises help a student to understand and develop the necessary professional skills required to effectively manage complex business programmes. They will be able to learn to plan, execute, communicate and control the execution of tasks, step-by-step, and effectively, in the complex and demanding business scenario.

On the Internet

1. Visit http://elt.heinle.com/cgi-telt/course_products_wp.pl?fid=M691&product_isbn_issn=0759398569&chapter_number=11&resource_id=8&module_id=25227 to learn what makes a good manager?
2. Log on at http://www.umass.edu/humres/library/Super.htm to learn about supervisory leadership development

On the Internet

This feature lists out addresses of some websites which are useful for students for gaining further knowledge—both broader and in-depth.

Visual

References

1. Higgins, J. (1994). *The Management Challenge,* Second edition, Macmillan, 1994, p. 7.
2. Follett, M.P. (1942), *Dynamic Administration, The Collected Papers of Mary Parker Follett*, Ed. H. Metcalf and L. Urwick. New York: Harper and Row.
3. Weihrich, H. Cannice, M.V. & Koontz, H. (2008). *Management – A Global and Entrepreneurial Perspective*, Twelfth Edition, 2008, Tata McGraw-Hill, New Delhi, p. 4.
4. Davis, K. (1957). *Human Relations at Work: The Dynamics of Organisational Behaviour*, 10th edition; New York: McGraw-Hill; [Newstrom, J.W. and Davis, K. Organisational Behaviour: Human Behaviour at Work], McGraw-Hill, 1996.

References

A comprehensive list of material for further reading is provided at the end of each chapter. It will help the students in upgrading their knowledge.

Suggested Reading

1. Kenneth Blanchard and Spencer Johnson (1982). *The One Minute Manager*, New York: William A. Morrow, 1982.
2. Joan Knutson (1980). *How To Be A Successful Project Manager*. New York: American Management Association Extension Institute, 1980
3. Thomas J. Peters and Robert H. Waterman, Jr. (1982). *In Search of Excellence*, New York: Harper & Row, 1982.
4. Kenneth Blanchard and Robert Lorber (1984). *Putting the One Minute Manager To Work*. New York: William A. Marrow, 1984.

Suggested Reading

There is another useful list at the end of the chapter which has the names of books, journals and magazines. These can be referred to by students who are interested in reading more about any topic.

Walkthrough

Case Study

Evolution of Indian Business Organisations in the 20th Century

Indian business organisations have gone through different phases in the nineteenth and twentieth centuries. These phases can be broadly classified into the following phases on the basis of the nature of ownership-management structure of these entities.

Phase I: Managing Agency Structure Prior to 1969

In India the multi-company entities have existed since the 19th century. Earlier they used to be in the form of European-controlled managing agency houses and then as the Indian business group. The business groups attempted to secure their controls through cross-holdings. These business groups used to bring to the table the reputation of family name as an asset. Such reputational assets reduced contracting costs and improved efficiency, the results of which were shared by all shareholders.

Case Studies

Interesting case studies, set in the Indian context, are provided at the end of the chapters. These enable a student to understand the concept taught in the chapter from an application point of view.

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Index

An index at the end of the book will aid the readers in locating the topics in the right context in an accurate manner.

Brief Contents

Contents

SECTION C: FUNCTIONS OF MANAGEMENT

Section A

Introduction to Business

Chapter 1

Business and Forms of Business Ownership

To open a shop is easy, to keep it open is an art.

—Chinese proverb

LEARNING OBJECTIVES

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INTRODUCTION

With the strengthening of capitalism and unleashing of the forces of liberalisation, privatisation and globalisation, business has emerged as a dominant global force. It is not only shaping the economic topography of the world but also the socio-cultural and other facets of human existence.

Large multinational organisations, whose turnover is more than the combined GDP of many small countries, have emerged as agents of flow of capital, transfer of technology and migration of managerial practices. This development has transformed the world into a global village, resulting in the integration of economies and the spreading of varied cultures, languages, values, ethics, etc. among countries. The world of business has become a lot more than the mere economic entity that it used to be once.

Business has been defined variously by management experts. Following are some definitions of business. Business involves human activities directed towards providing or acquiring wealth through buying and selling of goods (L.H. Haney[1], 1913). It is also defined as an activity in which different persons exchange something of value, whether goods or services, for mutual gain or profit (Peterson and Plowman[2], 1948).

Business also refers to an institution organised and operated to provide goods and services to society for the incentive of private gain (Wheeler[3], 1962). In common parlance, all the activities which are undertaken for earning profit are referred to as business.

To sum up, business is an economic activity or a system in which there is an exchange, a sale or a transfer of goods or services on the basis of their perceived worth either for the purpose of making profit in monetary terms or for creation of wealth. Business organisations are the economic entities that employ resources with a motive to earn profit for their shareholders as a return on the capital invested by them.

SCOPE OF BUSINESS

The business ecosystem comprises the following essential constituents:

- **Investment:** Every business requires some form of investment that is provided by the investor(s) with the intent of making a profit from it.
- **Operations:** Business needs to establish effective and efficient operations that could be utilised to produce and distribute products or services, which can fulfil the needs of the customers.
- **Customers:** Business requires a sufficient number of customers to whom its output can be sold at profit on a consistent basis.
- **Customercare:** Business needs to establish an appropriate network for customercare and after-sales service to serve various needs of its existing customers.

Activities Excluded from Business

(1) ***Social Service Activities:*** There are certain organisations which are established with the sole objective of rendering social service to society. Making profit is not the key goal of such organisations. For example, NGOs, charitable organisations, voluntary organisations like clubs, government agencies, etc. exist purely to render some social service to society. These are very different from the profit-seeking business organisations and therefore are excluded from the domain of business.

The above explanation does not imply that the social service organisations do not generate profit or should not attempt to create surplus on account of the services they render. It only means that profit is not their primary motive and the surplus they generate is retained to be reinvested again. The surplus is not handed over to the shareholders or founders as dividend.

(2) ***Personal Consumption Activities:*** Different activities, which are concerned with the production or purchase of goods and services for personal consumption, fall outside the scope of business. For instance, a shoemaker making a pair of shoes for personal use or a nurse nursing her own child are not performing business activities because these do not involve an exchange, a sale or a transfer of value or utility for a consideration.

(3) ***Religious and Spiritual Activities:*** Religious activities, not aimed at earning profit, are excluded from the domain of business.

(4) ***Illegal Activities:*** Certain illegal activities, though economic in nature, cannot be termed as business. Smuggling is one such activity. It involves an organisation and includes production and exchange of goods and services for earning money. But, smuggling is nowhere legally recognised as a business. The definition of a legal and an illegal activity may vary from one country to another. For example, consumption of liquor, gambling, etc. are legal in some countries and illegal in others.

PURPOSE OF BUSINESS

All business organisations have one underlying purpose—that is to generate profit as a return on investment in a socially acceptable manner. Motivation to earn profit per se is absent in non-business organisations. Therefore, 'profit motive' has become an established common denominator to define business organisations and a suo-motu factor of distinction between what constitutes business and what not.

Although 'profit' has ceased be a dirty word, majority of management experts prefer to substitute profit with a more holistic term, that is, 'generation of surplus' as purpose of the business.

But, Peter F. Drucker[4] (1954), renowned management guru, defined that the purpose of business is to create and keep customers. It is based on the presumption that if there are no customers, it actually means no business. Drucker's approach is based on the philosophy that once a business creates a customer, profit is likely to follow. So, he emphasised that business should focus on customers which would ultimately lead to profit. However, if in the sole pursuit of profit, the interest of the customer is ignored or harmed, it may prove counter-productive for the concerned business.

The goal of business in an open market system like the United States is to make money… however, making money is not and should not be the only driving force in your business, but it must be addressed each time you make a decision concerning its income and expense.[5]

There exists a great difference in the manner in which the purpose of business is defined in different parts of the world. According to Balasubramaniam[6] (2000), in the Anglo-Saxon capitalist world, the company belongs to its owners, the equity shareholders. However, in Japan and Germany, other groups also figure among the stakeholders of the company. In Japan, the company and its employees are treated like a family, with the shareholders often treated as their poor relations. This Japanese business trait is based on the philosophy that an employee who devotes his or her life to a business has, morally, a bigger stake in it than a shareholder. The two-tier board system or the eco-determination model in Germany brings together management and labour on the same platform and ensures the involvement of employees in the governance structure of a corporation.

GE's long-time CEO, Ralph Corinder, preferred to call its top management a 'Trustee' responsible for managing the enterprise 'in the best balanced interest of shareholders, customers, employees, suppliers and plant community cities.' Similarly, the five-year vision of Wipro Corporation, the leading IT company of India in terms of capitalisation, puts its people first. Another IT giant of India, Infosys Technologies, also thrives on its objective of making thousands of its employees millionaires through the company's stock sharing programmes while retaining a top slot in the capital market and attracting international investors.

CHARACTERISTICS OF BUSINESS

The different characteristics of business are outlined as follows:

1. ***Economic Activity***: Business is an economic activity as it is concerned with creation of wealth through the satisfaction of human wants by exchanging goods and services for a consideration to earn a profit as a return on the investment. Business involves significant human element in the performance of those economic activities which it represents. And, this human element has a considerable impact on the overall output of the employees as well as their organisation.
2. ***System***: Business is a systematic arrangement of various elements (man, machine, material and money) that, as per an advance plan, transforms inputs into output as a solution for its customers for the attainment of certain goals and objectives.

   A business entity acts as an open system with well-defined boundaries that is engulfed by various facets of business environment. This system acts and reacts to the various changes in the environment surrounding it. Simultaneously, it also impacts or influences the environment in which it exists. For example, media companies not only report what is happening in different parts of the world but also exert an indirect influence on the value system and the thought process of the society to which they belong.

   Any business usually needs an organisation for its smooth running and successful working to achieve its objectives. This organisation may be as small as a sole entrepreneur or as big as a transnational corporation present all over the globe with thousands of employees.
3. ***Profit Motive***: The motive of business is to earn profit or generate surplus. This motive provides an incentive for the investor to undertake a risk and invest in a business entity.
4. ***Risks and Uncertainty***: Return on the investments made in a business depends on its performance in the future, and the future is uncertain. Therefore, business involves risk because of the uncertainty associated with the return on investment. Though this risk cannot be eliminated completely, efforts are made to manage it. All the planning, decision-making and implementation in a business is strongly influenced by the risk-return trade off. The element of risk keeps the whole business organisation vigilant to formulate and implement such strategies and policies that would minimise or eliminate a potential risk.
5. ***Creation of Utility***: Business exists to satisfy some human needs. It creates something as a solution to a certain need of the potential customer. This solution should be perceived to be having some utility or value by the target customers. Creation of a utility should ideally lead to a win-win situation for the customers, society, the business organisation and its stakeholders. Business organisations provide either one or all of the following activities—sale, purchase, production, service or exchange of goods and services—to meet the demand of potential customers for some consideration.

To survive in the market, a business organisation needs to conduct dealings and transactions on a regular basis. In the accounting transactions, it is reflected as an ongoing concern, which assumes that the business organisation will continue to be in existence for times to come. The present-day business organisations not only satisfy the needs of the customers but also make an attempt to contribute to the overall welfare of society directly or indirectly. That is why, the concept of Corporate Social Responsibility (CSR) is gaining importance in the present-day hyper competitive business scenario.

6. ***Commerce***: Commerce includes those business units and institutions that perform activities or functions related to transfer, buying and selling of finished goods and commodities, from their place of production to customers or ultimate consumers. It includes both trade and aids to trade.
   (a) **Trade**: Trade refers to the whole process of transferring or distributing the goods produced by different persons or industries to their customers or ultimate consumers. The system or channel, which helps in the exchange of goods, is called trade.
   (b) **Aids to Trade**: Aids to trade refers to all those activities which are helpful in trade. It includes services like banking, transportation, insurance, warehousing, agents, advertising, communication, etc.

CHARACTERISTICS OF AN EXCELLENT BUSINESS ORGANISATION

Different management luminaries have identified different traits that make up an excellent business organisation. Some of these traits have been highlighted here.

(a) According to Tom Peters[7], excellence is a cultural factor. In his landmark book *In Search of Excellence*, he claims that excellent companies are those, which are "brilliant on basics". He outlines the following eight attributes of an 'excellent' company in his classic work.
   1. A bias for action (taking the initiative)
   2. Close to the customer for learning their needs
   3. Promote autonomy and entrepreneurship
   4. Strive for productivity through people
   5. Hands-on, value-driven leadership
   6. Stay close to the business activity that they know the best
   7. Simple organisation structure and form, lean staff
   8. Central core values combined with decentralised organisation

(b) Foster[8] (2001) has identified the following characteristics of an excellent business organisation.
   (a) **Remain in touch with customers:** This can be achieved by a business organisation through its own departments like R&D and marketing, or by employing the services of research and consultancy organisations like AC Nielsen.
   (b) **Remain in touch with what is happening at the periphery of their industry:** This can be done by closely examining the small but dynamic and experimenting companies in an industry. This is important because most industries today are made up of companies which were at the periphery 10 years ago. Successful companies like Cisco and Amgen are known for utilising this characteristic to great benefit.

(c) Narayanamurthy[9] (2000), the founder CMD of Infosys, identified the following characteristics that generally hold true for majority of well-managed companies across the globe.

- The ability of a corporation to sell its products and services and earn a market rate of return on capital is a good indicator of its efficiency and effectiveness in the marketplace.
- The sole interest of the owners (shareholders) lies in optimising the return on their investment.
- If the company's performance, or lack of it, can be traced to an under-performing management, the preferred alternative requires the owners to make way for an alternate management and ownership.
- An organisation can achieve its vision if it is paranoid about the future. This makes it respect and learn from its competitors. It encourages the organisation to show speed, imagination and excellence in execution.
- Harnessing the power of youth as the future is about youth, energy and enthusiasm.
- To attract and retain high-quality professionals, the organisation must protect and enhance the respect for professionals by taking the following actions.
  (a) There must be merit, fairness and transparency in all decisions affecting the professionals.
  (b) Being transaction-based, the organisation should start every transaction on zero base so that there are no biases and groupism in its management.
  (c) The business family must not play any non-merit-based role in the operations of the company.

The success is not permanent. What is right today might not be right tomorrow. Therefore, business organisations need to regularly scan the environment and inculcate the necessary success factors in their functioning. In the highly transient business environment, nothing should be treated as sacrosanct. Organisations need to continuously evolve by following the principle of 'Learn-Unlearn-Relearn'.

Thus, we can conclude that business has emerged as a multifaceted entity. It needs to be studied and analysed in all its facets and not merely as an economic activity. Proper management of a business entity may not be possible without an in-depth understanding of its different constituents. Therefore, the manner in which the world will perceive the nature, scope and purpose of business will have a significant impact not only on the world of business but also on the nature of existence of mankind.

FORMS OF BUSINESS OWNERSHIP

Business organisations are of varied types. Their classification can be based on parameters like number of promoters, extent of contribution of capital, nature of management and control, level of associated risk and liability, division of profits, legality with respect to its existence as an entity, etc. Each form of business organisation has its own advantages and disadvantages, different levels of associated risk, formation requirements, tax implications, etc.

On the basis of nature of ownership, business organisations are broadly classified into the following categories.

1. Sole Proprietorship
2. Joint Hindu Family Business

3. Partnership
4. Joint Stock Company
5. Cooperative Society
6. Government undertakings

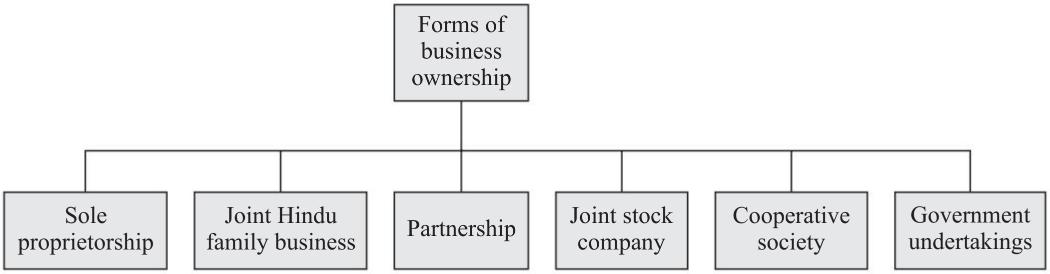

Figure 1.1 Forms of Business Ownership

Sole Proprietorship

Sole proprietorship is one of the oldest and simplest forms of business organisation that is owned and controlled by a single individual. The individual makes his/her own investment in the business with an objective of generating profit and takes the risk of bearing all the losses, arising from unlimited liability.

According to J.L. Hanson[10] (1977), sole proprietorship is a type of business unit where one person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of the business.

Characteristics of Sole Proprietorship

1. ***Nature of Entity:*** A sole proprietorship cannot be viewed as a separate legal entity. In other words, the law does not treat a sole proprietorship as an entity that is distinct from its owner. Both the sole proprietorship and its promoters are treated as one in the eyes of law for all the implications. Hence, there is no perpetual continuity of this form of business entity as it gets dissolved with the death of the entrepreneur.
2. ***Nature of Ownership and Management:*** Sole proprietorship is usually owned, managed, controlled and financed by a single owner. The single owner invests the entire capital which may be borrowed. Being the sole organiser of business, the entrepreneur leads his/her organisation from the front and solely bears the risk of failure. The sole proprietor looks after almost every activity of his/her enterprise and takes all business-related decisions. The owner may employ other persons, but the success or failure of business generally depends on his/her decision-making ability and intelligence. Therefore, the scope of sole proprietorship is normally very limited.
3. ***Formalities and Regulations:*** It is very easy to establish or wind up a sole proprietorship entity. There are almost no legal requirements with respect to its incorporation and winding up. There are also minimum formalities and regulations with respect to its management and record keeping as the

law does not treat such a business organisation distinct from its owner. Even the auditing of financial statements is not necessary, but the balance sheet could be useful for seeking a bank loan.

4. ***Nature of Liability:*** The liability of the owner of a sole proprietorship is unlimited. This means the entrepreneur is personally liable for all the debts, liabilities and obligations of the business entity. The personal property of the owner could also be attached if the business assets are insufficient to pay off the liabilities of the sole proprietorship entity.
5. ***Profit and Taxation:*** All the profit and loss of the sole proprietorship belongs to the owner only. The sole proprietor is taxed individually and his/her business is not taxed separately. Therefore, the owner is responsible for paying income tax, in his personal capacity, on the income earned from the sole proprietorship entity.

Advantages of Sole Proprietorship

1. There is a great deal of ease in establishing a sole proprietorship business as it does not involve any legal formality. There is no need to register the name of the organisation to start a business as a sole proprietor. Such a business can also be terminated without any formality at the sweet will of the owner. The ownership can also be easily transferred without much legal formality.
2. There is a direct and complete control of the entrepreneur over the business; therefore, it is devoid of complications arising due to ownership claims and clash of interests. The decision-making is quite fast because almost all the decisions are taken by the sole owner himself/herself. Management is also inexpensive as most of the managerial functions are personally discharged by the entrepreneur.
3. There is a flexibility in operations and the execution is also relatively fast. A sole proprietorship can easily adapt to the changes in the business environment as compared to other business organisations. It happens because a change can be introduced in this form of business quite fast with little effort.
4. All the earned profit goes to the owner directly. The auditing of financial statements is not necessary. However, the auditing is desirable if the organisation intends to seek a loan from a bank or a financial institution.
5. The ownership generally passes from one generation to the other, so there is benefit of parental goodwill.

Disadvantages of Sole Proprietorship

1. There is limitation with respect to the availability of financial resources to expand the business.
2. The owner may have limited managerial skills and experience to manage the business effectively. Wrong decisions made in haste or otherwise by the owner can harm the business. The owner may find it difficult to attract the skilled staff due to limited resources and low salaries.
3. The owner has unlimited liability and his/her personal assets may be sold off to pay for the debts and liabilities of the business.
4. Competition is usually strong because of existence of a large number of sole proprietors in the same business in a particular geographical region.
5. The entire business revolves around the proprietor and his or her death may lead to dissolution of the business organisation.

Joint Hindu Family Business

This form of business organisation is prevalent only in India, mainly in Hindu families. In a joint Hindu Family Business the head of the family, called 'Karta', takes care of the business and other members of the family, who may also be involved in the business, are called the members of the Hindu Undivided Family (HUF).

In case of the death of the 'Karta', the next elder or senior member of the family becomes the Karta. Membership to this form of business organisation can be acquired only by birth in an HUF or by marrying the male member of an HUF.

Partnership

As you know, a sole proprietorship business depends upon the skill and resources of a single person. A single owner may not be able to manage a large business endeavour efficiently and effectively. So, to overcome this limitation there might be a need for few individuals to pool their resources to own and manage a business jointly. This form of business organisation where two or more individuals come together to undertake a business activity is termed as partnership.

In a partnership, two or more than two people (not more than twenty) enter into a legal relationship and voluntarily combine their capital to run a lawful business with a profit motive by oral or written agreement. They share the profits and losses of the business in mutually agreed proportions as decided and written in the partnership deed with unlimited liability.

Partnership can be defined as an association between two or more persons who agree to carry on a business in common with a view to private gain (L.H Haney[11], 1913). Small- and medium-sized business activities are performed by Partnership organisations.

The Partnership Act, 1932, defines Partnership as a relationship between persons who have agreed to share profit of a business carried on by all or any of them acting for all.

Reasons to form Partnership

- Two or more individuals may want to combine their financial resources, competencies, personal qualities and capabilities in order to set up a business and thus increase the operational efficiency as well as share the risk.
- The sole proprietor of a business may want to increase the capital of the business for future expansion. He/she may invite other individuals to join him/her as investor(s) by providing investment.
- A relative or an employee can be integrated in a business as a partner in order to enhance his/her interest in the business.
- Smaller organisations might decide to come together as a single business to compete with large competitors or to ward off harmful competition.
- To retain a skilled employee, the owner may make him/her a partner by giving the employee a stake in the business.
- In a partnership organisation, the sharing of risk, burden and responsibility among the partners eases their stress and workload.

Characteristics of Partnership The following points describe the main characteristics of partnership.

1. Each partner contributes to the capital of the business, but not necessarily in the form of money. There is also a restriction on the transfer of interest or share by a partner without the consent of other partners. The partnership is dissolved if one partner dies, retires or is declared insolvent.
2. The business may be carried on by all persons or by one or more persons on behalf of all partners/ as agreed to by the partners. One or more partners, as decided among all partners signs on behalf of the partnership in the capacity of an agent.
3. Partnership is not a distinct legal entity, separate from its partners in the eyes of law. Legally, it stays with the partners and doesn't pay income tax. The taxes are paid by the partners on the basis of income earned from the partnership in their personal capacities. The liability of partners is also unlimited and all partners are jointly responsible for all the debts of the business.
4. A partnership requires an utmost good faith among the partners.
5. Profits are divided among the partners as mutually agreed upon and mentioned in their agreement.
6. The auditing of financial statements is not necessary. It is not mandatory to form a balance sheet although it is advisable to do so for financial clarity and for raising a loan.
7. A partnership can be formed by a written or verbal agreement, but it is wise to have a written Partnership agreement or deed. In case the ownership is not equally divided among the partners, it is necessary to have a written agreement among the partners in order to establish the Partnership.

Exhibit 1.1 Contents of Partnership Deed

A Partnership deed generally includes the following elements.

- Name of the partnership firm.
- Names of the partners, extent of the contribution of each partner in the partnership firm and the proportion in which profits and losses are to be divided among the partners.
- Permanent address of the partnership.
- Duration of the partnership.
- Nature of the business to be carried out by the partnership firm and its aims and objectives.
- Rights, powers and duties of different partners.
- Names of the person(s) who have the authority to manage the partnership firm and have the authority to sign cheques.
- It should ideally include the procedure for the dissolution of the Partnership firm and an arbitration clause in case of any dispute or disagreement among the partners.

Advantages of Partnership Partnership offers the following benefits to its promoters:

1. It can provide more financial and human resources than the sole proprietorship because of the pooling of managerial/financial resources of different partners.
2. It is easy to form with very little formality and documentation. Apart from the legal requirement of formulating a partnership deed, there are no complicated formalities. Even the termination of the business is also relatively simple.

3. The partners can introduce the changes they wish to suit the changed environment without much difficulty.
4. There can be a strong personal interest in the partnership.
5. A partnership firm can take advantage of different skills and competencies of different partners. Not only the workload and responsibility can be distributed among the partners according to their capabilities, but there is also a sharing of risk by the members.

Disadvantages of Partnership The following disadvantages are associated with partnership:

1. There is a lack of stability in a partnership as it has to be dissolved when a partner dies, retires or is declared insolvent, or when a new partner enters the business.
2. There may be a delay in decision-making because of a difference of opinion among the partners on various business issues. Conflicts and frictions may also arise among the partners because of their divergent opinions on how to manage the business.
3. There are chances of fraud because there is no requirement for the auditing of financial statements.
4. There is restriction on the transfer of interest by a partner without the consent of other partners.

Joint Stock Company

In the modern-day globalised environment, the scale required for a business to be profitable has increased significantly. Consequently, the requirement of finance and manpower for business has gone up considerably. In this context, it may not be possible for the sole proprietorship and partnership forms of business organisations to undertake large business activities requiring significant capital investment and managerial competency. They are also not in position to take the risks associated with managing large businesses.

In order to overcome these problems faced by the Sole Proprietorship and Partnership entities, a new form of business organisation, the Joint Stop Company came into being. It may also be called the Company form of business organisation. It evolved as a voluntary association of persons who contribute their capital as members or shareholders of the company. A Joint Stock Company can raise huge capital with limited liability.

Joint stock company was first started in Italy in thirteenth century. In India the first Companies Act, passed in 1850, paved the way for the formation of joint stock companies. However, the principle of limited liability was Introduced in 1857. A comprehensive Companies Act was passed after the independence in 1956. All undertakings incorporated and registered as per this Act are termed as ‘companies’.

The Companies Act, 1956 defines a company as an artificial person created by law, having a separate legal entity, with perpetual succession and common seal. This means that the company and its investors are two distinct entities and different from each other. The distinct legal citizenship of the joint stock company has been aptly described by Chief Justice Marshall[12] as: ‘A corporation is an artificial being, invisible, intangible and existing only in contemplation of the law. Being a mere creation of law, it possesses only the properties which the charter of its creation centres upon it either expressly or as incidental to its very existence.’

A joint stock company is a voluntary association of persons created under the law for the purpose of some business for profit with common capital, divisible into transferable share, with a common seal. The life and existence of the company is not dependent on the life of its members. It is created by the process of law and can be put to an end only by a process duly established by the law.

Origin of Joint Stock Company The origin of the joint stock company can be traced to Italian maritime states where there was the tradition of dividing ownership over tangible things into 'shares.' Funding the construction and operation of ships was one such activity that was undertaken by dividing the entire capital investment and expenditure into a certain number of shares (24 and 64 were common divisions). However, the shareholders had control only over the captain and crew of the ship. Some characteristics of the Italian business entities were later on emulated by the Dutch and East India Companies. Owning 'shares' in these joint stock companies constituted ownership.

The share system was also used in the mining industry of Sweden in northern Europe in the 13th century. In this system, a mine was divided into 8 shares. In the 15th century, a wide variety of mines were divided into ownership shares in Germany and Italy in eastern Europe. These ship and mine shares were issued in small numbers (usually between 24 and 640) and were not typically traded on exchanges or even at fairs. Thus, initially, the non-liquidity of shares was a rule. The number of employees was also small, usually not more than a few dozen.

It was not until the Dutch East India Company, founded out of a merger of smaller colonial companies in 1602, that the company shares existed in large volumes requiring their trading on exchanges. Before taking up share trading, the exchanges used to deal in state and municipal bonds and commodities. Many early English expeditions of discovery and privateering, such as Drake's circumnavigation of the globe, and many naval expeditions during the war of the Spanish Armada, were financed by setting up temporary joint stock corporations.

Characteristics of Joint Stock Company The following are the main characteristics of a joint stock company in the Indian context.

1. ***Registration***: No single individual or a group can form a joint stock company, also called company, on their own. A joint stock compamy is formed only when it is registered and duly incorporated after completing all the legal formalities according to the Indian Companies Act, 1956. It is obligatory for a joint stock company to file its annual report with the Registrar of Companies at the end of every year for inspection by the office of the Registrar.
2. ***Artificial Person***: A company is a person created by law, but without body and soul, that is why it is called an 'Artificial Persons'. The birth of a company takes place as per the provisions of the Indian Companies Act 1956. Similarly, the death of the company is also regulated by law. It performs certain functions during its lifespan in the corporate world. Since it does not behave like a normal person, that is, physical human attributes are missing, therefore, it is called an artificial person or body. Thus, a company cannot marry, take oath, be sent to jail and practice as a professional. However, it pays taxes on corporate profits it earns through its operations separately from its investors.

   The entity of a company is quite distinct from the members who compose it. All the shareholders do not manage the company themselves but they leave the management into the hands of their representative Board of Directors and professional managers. The promoters should only provide direction and look after the entrepreneurial side of the business.

3. ***Separate Legal Entity***: The investors of a joint stock company and the company itself are two different legal entities. The company can sue others over any issue in a court of law in its own name. Similarly, the company can be sued by others, but in this case the shareholders or the investors cannot be held liable for the acts of the company. The investors are not the owners of the property of the company; they receive dividends as a return on their investment. A joint stock company is capable of purchasing, owning, enjoying and disposing of property and can run the lawful business without interference of its shareholders.

   The principle of separate entity is regarded as a curtain, a veil or a shield between the company and its members, thus protecting the members from the full liability of the company. However, this provision of separate legal entity can be withdrawn under special circumstances through a process termed as 'Lifting of Corporate Veil'. In such a situation, the shareholders lose the right conferred by the limited liability clause and can be held accountable individually by removing the distinction between them and the company. This provision is based on the assumption that an artificial person that is the company, is not capable of doing anything illegal or fraudulent, and the notion of corporate personality might have to be abandoned to identify the persons who are really guilty.

   The corporate veil can be lifted under following conditions or circumstances if the members/directors defraud the company by their personal acts to hold them personally liable.

   a. Under Statutory Provisions

   - Publication of mis-statement in the prospectus (Section 62).
   - If the company works for the period of more than six months with members less than statutory limit all will be liable for the payments to be made which are contracted for during that period (Section 45).
   - If the directors are unable to refund the application money within 130 days the directors will be jointly or severally liable with interest [Section 65 (5)].
   - Separate identity is not considered in case of laying down the accounts of group companies.
   - To investigate the affairs of the subsidiary or the holding company.
   - If the evidence of oppression and mismanagement is found during investigating affairs of the company (Section 239).
   - Non-disclosure of company's name on legal documents like: bill of exchange. A person is personally liable if he signs the document where the company name is not clearly mentioned.
   - When a company is a mere sham and the device of incorporation is used for illegal or improper use to do a fraud or for evading contractual and statutory obligations, or to evade tax.
   - Where the sole purpose of the new company is to use it as a device to reduce the amount to be paid by way of bonus.

- If at the time of winding up of the company, it appears that the intention of the company was to defraud creditors.

b. **Under Judicial Interpretations** The corporate veil can be lifted on account of the following judicial interpretations
   - Protection of revenue to avoid tax evasion.
   - Prevention of fraud and improper conduct.
   - Determination of enemy character of the company.

4. ***Common Seal***: A company is capable of acting in its own name. However, being an artificial person, it cannot sign a document by itself. Therefore, the common seal of the company acts as a substitute for its signature. The name of the company is engraved on its common seal. All the contracts entered into by the agents of the company must be concluded under its common seal. The responsibility and the authority of a company, which is an artificial body, lies with its officials, which is given to them at the time of their selection. When they use the common seal in their capacity as company officials, they become responsible for their acts.
5. ***Capital***: The capital of a joint stock company, called share capital, is formed by the individual contributions of its members who come together on a voluntary basis. The capital is divided into small parts known as 'share or stock' which are easily transferable. Every person who takes up the share of a company is called a shareholder and is part-owner of the company. The shares of a public limited company are freely transferable and can be sold or purchased in the share market. A joint stock company can raise large amounts of capital by issuing shares of small denominations to perform business operations on a large scale, which entails huge risk.
6. ***Limited Liability***: The shareholders or the investors of a joint stock company are liable only to pay for a sum that is equivalent to their investment in the company. The personal property of the shareholders cannot be attached to repay the debt of the company in which they have invested capital. This is a prominent distinctive feature of a Joint Stock Company in comparison to other forms of business organisation.
7. ***Perpetual Succession***: In a Joint Stock Company, members may come and go, but the company continues its operations unless it is formally wound up through a procedure laid out by law. This is a distinct characteristic of the company. It implies that its existence is not dependent on the fate of its members or investors. Its operations are also not affected on account of the transfer of its shares by one investor to the other. After the death of a shareholder, his/her shares are transferred to their legal heirs. This characteristic gives life and stability to the company for a time period till it fulfils the requirement of the law of the land or it is winded up legally as per the provision of the law.
8. ***Independent Directors***: To ensure the empowerment and effectiveness of the board of directors of a Joint Stock Company, the government has brought in amendments in the Companies Act, 1956. Following the amendments, it has become mandatory for the companies to institute independent directors with lot of authority and corresponding accountability. Independent Non-executive directors are outsiders who with their unbiased judgment and logic can bring in fresh ideas for the progress of business. They also, act as a watchdog to safeguard the interests of stakeholders (shareholders, suppliers and customers) from an overzealous management. The trend

towards bringing in independent non-executive directors started emerging in the mid-1980s. Thus, Non-executive Directors help to strike a balance between wealth creation for the owners and the interests of others whose lives are touched by the operations of the companies[13].

Classification of Joint Stock Company A joint stock company can be classified into different types on the basis of the following parameters.

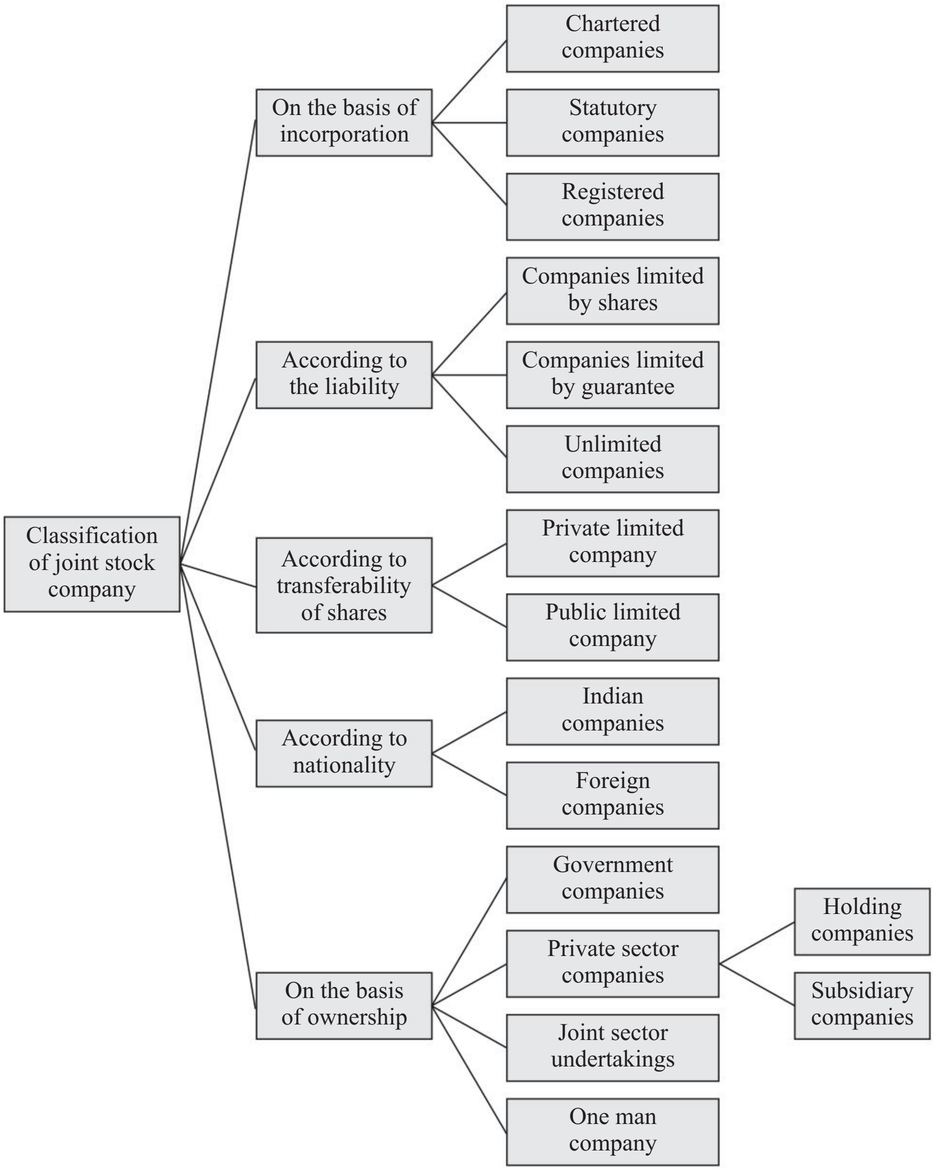

Figure 1.2 Classification of Joint Stock Company

(A) ***On the basis of Incorporation:*** The companies can be classified into three categories based on the mode of their incorporation.

(a) ***Chartered Companies***: These companies are incorporated under royal charter by the king or the head of the state or the country. For example, the East India company, the Standard Chartered Bank, etc. Such companies are not created these days.

(b) ***Statutory Companies***: These companies are formed by a special act paned by the parliament or the state legislature. These companies may and may not use the word 'limited' as suffix. Examples of such companies are the Reserve Bank of India, the State Trading Corporation of India, the Food Corporation of India, etc.

(c) ***Registered Companies***: These companies are formed and registered under the provisions of the Companies Act, 1956. These companies are limited by shares or by guarantee and use the word 'limited' as suffix.

(B) ***On the basis of Liability:*** The companies can be classified into the following categories on the basis of the nature of their liability.

(a) ***Companies Limited by Shares***: A company limited by shares has the capital in the form of share capital and the shareholders are liable only up to the extent of amount they have invested in the company, that is the amount of shares that they have purchased. Most of the companies fall under this category.

(b) ***Companies Limited by Guarantee***: These companies are formed by societies for charitable purposes and their profits cannot be distributed to the investors. A company, limited by guarantee, is usually the first step towards the creation of a charitable trust. In such a company, the liability of the members is limited up to the amount which they undertake or guarantee to contribute to offset the liability of the company in the event of its winding up. Actually the guarantee refers to a stipulation in the Memorandum of Association to pay a certain amount of money at the time of winding up of a company in the event of its liquidation. This amount is also called guarantee money.

(c) ***Unlimited Companies***: Such companies have unlimited liability. It means that the members of such a company have to contribute the necessary amount to pay off the creditors of the company to overcome its liabilities. At the time of the liquidation of such companies, if required, the personal property of the investors can also be attached because the liability of members is not restricted. Such companies do not exist these days.

(C) ***According to Transferability of Shares:*** On account of the transferability of shares, the joint stock companies can be grouped into two categories described below.

(a) ***Private Limited Company***: According to Section 3 (i) (iii) (amended in 2000) of the Companies Act, a private company limited has the following characteristics:

(i) The name of the company must end with suffix 'Pvt. Ltd'.

(ii) The minimum number of members in a private limited company is two and the maximum number of members is fifty.

(iii) There is a restriction on the company's right to transfer its shares. The shares of a private limited company are not traded in the open market and are only held by its directors and members.

(iv) No invitation can be issued to the public to subscribe to shares or debentures of a private limited company. It also cannot accept deposits through shares and debentures from persons other than its members, directors or their relatives.

(v) It must have a minimum paid-up capital of one lakh rupees or such higher paid-up capital as may be prescribed by law and by its articles.

(vi) It requires Memorandum of Association, Articles of Association and Certificate of Incorporation to commence business.

Advantages of Private Limited Company

1. There is no requirement of minimum subscription.
2. This form of business organisation is better for those businesses that require privacy and closely held ownership.
3. It is suitable for entrepreneurs with limited capital but inventive ideas.

Disadvantages of Private Limited Company

1. The shares of a private limited company cannot be sold to general public.
2. It is not a good option for very large businesses.
3. The shares cannot be easily transferred by the members.

(b) ***Public Limited Company*: ** According to Section 3(i) (iv) of the Companies Act (amended in 2000), a public limited company has the following characteristics:

(i) A public limited company is not a private company. It uses the word 'Limited' as suffix.

(ii) It has the minimum paid-up capital of five lakh rupees or such higher paid-up capital as may be prescribed.

(iii) It can be formed with minimum of seven members and there is no limit for maximum number of members.

(iv) It can start business only after the issue of the certificate of commencement of business by the Registrar of Companies.

(v) Its shares can be traded in the open market on the stock exchanges on which it is listed.

(vi) It can raise part of its capital after issuing a prospectus (Red Herring prospectus) through public offering of its shares and debentures.

(vii) It can be taken over by another company through the act of purchasing a controlling interest in the overall shareholding of the company.

(D) ***According to Nationality:*** On the basis of nationality, the joint stock companies can be grouped into the following two categories.

(a) ***Indian Companies***: These are the companies which are incorporated in India according to the provisions of the Indian Companies Act 1956 of India. But, they are entitled to run business in India or abroad.

(b) ***Foreign Companies***: According to Section 591 of the Indian Companies Act 1956, a foreign company means a company incorporated outside India and having a place of business in India through their branch offices or agencies. These companies have to fill certain documents and fulfil the requirements specified by the Registrar of Companies under the Companies Act before the commencement of business.

(E) ***On the Basis of Ownership:*** The joint stock companies can be classified into the following categories on the basis of their ownership.

(a) ***Government Companies or Public Sector Companies***: These are the companies in which over 50 per cent of the paid-up capital is provided by the government. The Government companies have been dealt with in detail later in the chapter.

(b) ***Private Sector Companies*****:** These companies are managed and controlled by individual shareholders or private sector organisations. These can be further classified as:

(i) **Holding Companies**: According to Section 4 of the Companies Act, a holding company controls the composition of board of directors of another company, or holds more than half of the nominal value of equity share capital of another company. When a company controls the management, policies and the operation of another company through the ownership of majority of shares then the controlling company is termed as holding company.

(ii) **Subsidiary Companies**: A company is said to be a subsidiary company if the formation of its board of directors is controlled by other company. This controlling company has the majority of voting rights or the maximum number of shares for the control of the subsidiary company.

(c) ***Joint Sector Undertakings*****:** These undertakings are made with the partnership of private individuals or the private sector organisations with the government bodies or public sector organisations. In joint sector undertakings the management lies with the private sector and the supervision is with the government bodies as members of Board of Directors. The investment of private sector organisations in these undertakings cannot exceed more than 25 per cent. In case the sharing ratio has to be more than 25 per cent for a private sector organisation, the permission has to be obtained from the Central Government.

(d) ***One Man Company*****:** In this type of company, one man virtually holds the whole of the share capital with a few extra members holding the remainder. These members may be his relations or nominees who are given a part of the share capital to fulfil the statutory requirements.

Advantages of Joint Stock Company

1. ***Large Source of Capital***: A Joint Stock Company is in a position to collect a large amount of capital through contributions from a large number of people at a low cost without much difficulty in the form of shares and debentures. Since there is no maximum limit on the number of members for a public limited company, any number of members can be invited for contribution in the capital.
2. ***Professional Management***: The management of a Joint Stock company is in the hands of the Board of Directors. They manage the affairs of the company and are accountable to the investors. For efficient and professional management of the company, its investors can elect persons with

sound financial, legal and business knowledge to the board. The offer of good salaries and stocks can attract talented employees to these companies.

3. ***Large-scale Production***: Due to the availability of large financial resources and technical expertise, a company can undertake production on a large scale. This enables the company to attain economies of scale and produce more efficiently at a lower cost per unit.
4. ***Limited Liability***: The liability of the owners or members of the company is limited to the extent up to which they have invested in its capital or the value of shares held by them. Private property of the members cannot be confiscated or attached at the time of liquidation for paying the debts of the company. This advantage attracts many people to invest their savings in a company. It also provides confidence and ability to the company to take calculated risks.
5. ***Research and Development***: The company form of business organisation provides an impetus to research and development. A company can invest in the research of new products and technology. This investment benefits the company, economy and people at large. It helps in the development of better quality products, which can enhance the satisfaction level of customers.
6. ***Transferability of Shares***: The investors of public limited companies can transfer their shares whenever they want. They can earn high return on their investment due to the appreciation in the value of shares on the stock market as well as from the dividend declared by the companies from time to time.
7. ***Contribution to Society***: The companies provide employment and livelihood to a large number of people that are involved in the production, sale and distribution of goods and services that it produces. Due to availability of funds, they are in a position to undertake social welfare and development activities. Apart from contributing to government income through taxes, the companies also donate large sums and offer free services for the good of society.
8. ***Perpetual Existence***: A company continues to exist irrespective of the rise or fall in the number of its shareholders. It is not affected even by the death of a shareholder. A company can only cease to exist if its owners decide to dissolve it or merge it with another business in accordance with the procedure laid out by law. Therefore, the existence of the company is not affected by the fate or nature of its shareholders.

Disadvantages of Joint Stock Company

(a) ***Difficult to Form***: The formation and registration of a joint stock company involves a long and complicated procedure involving a number of legal documents and formalities. This process of formation generally requires the services of specialists such as chartered accountants, company secretaries, etc., which increases the cost of formation of a company.

(b) ***Excessive Government Control and Interference***: Joint stock companies especially, the public limited companies, are regulated by government through the Companies Act and other economic legislations. They are required to complete various legal formalities as provided in the Companies Act and other legislations, which sometimes affects their smooth functioning.

(c) ***Delay in Policy Decisions***: Generally, policy decisions are taken at the meetings of the Board of Directors after fulfilling certain procedural formalities. These procedures are time consuming and, therefore, may delay taking of important decisions and their implementation.

(d) ***Procedure of Winding Up***: If the promoters want to wind up the company, Joint stock companies cannot be wound up at the whims and fancies of their promoters. They have to follow the procedure laid out by the Companies Act.

Table 1.1 Difference between Company and Partnership

Parameter	Company	Partnership
Existence	Existence possible only after registration	Created by an agreement among partners.
Identity	Distinct from the persons composing it	Merely an association of individuals.
Ownership of Property	The property belongs to the company, not the shareholders	Partners are joint owners of the property of the firm
Liability	The liability of the shareholders is limited to the extent of their share capital	Creditors may even proceed against the private property of the partners
Transferability of shares	Freely transferable	Cannot be transferred without the consent of other partners
Perpetual succession	Company does not die on its own or on the desire of shareholders; it is wound up by a procedure laid out by law.	Death or insolvency of a partner dissolves the firm, unless otherwise provided. Partners can also mutually decide to end the partnership.
Agency relations	Shareholder is not an agent of the company	Partner is an agent of the firm and can bind the firm by his acts.
Contract	Shareholder can come in contract with the company	Partner cannot enter into the contract with his own firm.

Process for Formation of a Joint Stock Company To form a joint stock company, the following steps need to be undertaken.

1. ***Promotion of a Company:*** A company comes into existence when a number of persons (promoters) come together with a view to exploit some business opportunity. The promoters can enter into pre-incorporation contracts before the incorporation of the company.
2. ***Incorporation:*** Under Section 12, seven or more persons for a Public Company (two or more in case of a Private Company) may form an incorporated company for a lawful purpose by subscribing their names (putting their signatures) to the Memorandum of Association (MoA) and complying with the requirements in respect of registration. It means an agreement among the persons concerned to associate themselves into a body corporate.

   The application for registration of a company with the required documents has to be submitted to the Registrar of Companies of the state in which the registered office of the company is to be established. After registration, the registrar issues a certificate of incorporation whereby he certifies that the company is incorporated. In the case of a limited company, it is also certified that the company is limited. From the date of incorporation, the company gets the legal effects like a separate legal identity, perpetual succession, common seal, etc.
3. ***Commencement of Business:*** A private company may commence its business immediately after its incorporation, but a public company cannot commence business immediately after incorporation unless it has obtained a certificate of commencement from the Registrar.

Memorandum of Association (MoA) and Articles of Association (AoA) MoA and AoA are two important documents with respect to the incorporation of a company. These documents define the nature and the scope of the company. The stakeholders, like investors, creditors, suppliers, etc, can read these documents to understand the characteristics of the company and then diligently decide whether to associate with it or not.

(A) ***Memorandum of Association:*** Lord Macmillan has described the Memorandum of Association (MoA) in these words: 'The purpose of the memorandum is to enable the shareholders, creditors and those who deal with the company to know its permitted range of enterprise.' Thus, the MoA is a document that can help the organisations external to the company to know the company in order to make different decisions with respect to the company. Section 15 of the Companies Act states that the MoA has to be a printed document divided into different paragraphs as different clauses. It must be signed by each subscriber in the presence of at least one witness.

This document is basic and mandatory for each company and a fundamental part of the constitution of a company. It is a public document and is open for inspection by those who deal with the company. It forms the basis of the relationship of the company with outsiders. It can be altered but subject to certain conditions. The MoA comprises the following different clauses that define the nature and scope of the company.

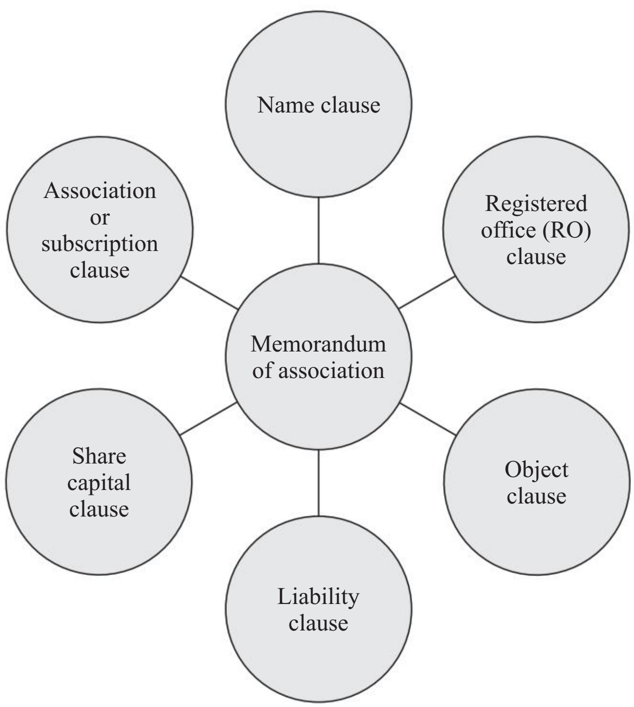

Figure 1.3 Different Clauses of Memorandum of Association

- ***Name Clause***: This clause specifies the name of the company and provides guidelines on how to name a company. It states that it is mandatory to use the word 'Ltd.' or 'Pvt. Ltd.' with the name of a company, except in the case where the licence is granted by the Central Government under Section 25. The name of the company must be published and displayed. It also places restriction on using undesirable (identical) and inappropriate name for a company (Section 20).

- ***Registered Office (RO) Clause***: It specifies the address of the registered office and the head office of the company. Legal documents and books of the company need to be kept at the RO. The company notices should also be served from this office. It is not necessary that the RO of the company serves as the principal place of business. In other words, it could be different from the operational offices of the company.
- ***Object Clause***: This clause defines the purpose for which a company has been incorporated and informs the members how the company will use their capital. It also defines the restricted objects for which a company cannot be formed. Such objects include immoral or illegal activities or such activities that are opposed to public policy or which violate the provisions of the Companies Act. It informs the creditors and outsiders about the rights of the company (in case of *ultra virus* acts).

  The Object Clause is divided into two parts: Main object and Incidental or Ancillary objects. The Main object defines the basic purpose for which a company is created. The Incidental or Ancillary objects are the allied activities that it has to undertake to perform the activities listed in the Object Clause. If the object mentioned in the MoA is to deal in rice, then taking land on lease for rice crop is the object incidental to it.
- ***Liability Clause***: This provision in the memorandum of a company defines the nature and quantum of liability of the company.
- ***Share Capital Clause***: It specifies the composition of the authorised capital of the company with its division into fixed denomination shares. For example, 1,000,000 shares of Rs. 10 each. Authorised capital is the maximum limit up to which a company can issue shares.
- ***Association or Subscription Clause***: This clause of the MoA specifies the declaration of association by the signatories of the company. It declares the desire of the promoters to form the company and subscribe to its shares with due attestation by the witness.

Importance of MoA The MoA is an extremely vital document due to the following reasons.

- This document is also referred to as the charter/principal document of the company. Therefore, no company (private as well as public limited) can be registered without MoA.
- It helps all stakeholders to recall or memorise the purpose for which the company has been formed.
- Every person, dealing with the company in any form, is presumed to know about the provisions of the MoA, for which the company was formed. If any outside entity interacts or enters into a contract with the company beyond the activities listed in the Object Clause of the MoA, it is treated as *ultra vires,* that is, it is not legally enforceable against the company. Hence, all those individuals and organisations who want to deal with the company are supposed to have knowledge of the contents of its MoA. So, they should make an attempt to study it.

(B) ***Articles of Association (AoA):*** The Articles of Association (AoA) include the rules, regulations and guidelines for the internal working of a company. These contain the following provisions:

- Information about shares, certificates and variations of rights of the shareholders.
- Procedure and frequency of the meetings of the board of the company.
- Guidelines about the accounting records of a company.
- List of Directors of the company and appointment of management of the company.
- Policy with respect to issue of dividends and maintenance of reserves by the company.
- Postal and physical addresses of the company.
- Registration fee receipts and payment of annual duty.
- Written undertaking of the directors to take shares of the company.

Winding up of a Company There is a legally laid down procedure for putting an end to the life of a company. Given below are different modes of winding up a company.

(a) ***Voluntary Winding Up***: It is initiated by a resolution moved in the general meeting of the company. It can be of two types:
  - Members' voluntary winding up
  - Creditors' voluntary winding up

(b) ***Winding up under the supervision of the court***: Here the company is wound up under the supervision of any authority appointed by the court of law.

(c) ***Compulsory winding up by the court initiated on a petition to the Court***: A company may be wound up by an order of the court. Section 433 lays down the following grounds where a company may be wound up by the court.
  1. Special resolution by the board at AGM [Sec. 433 (a)];
  2. Default in filing statutory report or in holding statutory meeting [Sec. 433 (6)];
  3. Failure to commence business within specified time [Sec. 433 (c)];
  4. Reduction of membership below the stated minimum number [Sec. 433 (d)];
  5. Inability of the company to repay its debts [Sec. 433 (e)]

Cooperative Societies

In all forms of business organisation cited above, the primary motive is to generate profit and maximise the wealth of shareholders. Serving the society is not their main objective. However, cooperative societies are the only form of business organisation where different people combine their capital in order to serve the members of society rather than earn profit. The cooperatives are run by the members from a common background for protecting or enhancing their interest through a cooperative effort. Individually, these members do not have enough capital to start their own business, So, they decide to come together under the banner of a single organisation to protect their commercial interests.

Through a cooperative society, its members try to overcome the lack of scale, competencies and resources. And, they are likely to share the benefits like limited liability and perpetual succession under a cooperative.

According to the Indian Cooperative Societies Act 1912, 'Cooperative Society is an association of people, which has its objective the promotion of economic interest of its members in accordance with cooperative principles'.

Cooperatives are religiously neutral organisations and their membership is easy to obtain and voluntary in nature. As they require relatively less capital for their formation, these cooperative societies have been started to promote the welfare of the weaker classes of society. They employ their profit for the welfare of their members as well as the society. The Government also tries to contribute to the development of the people at the bottom of the pyramid through cooperatives. Therefore, the cooperative societies or undertakings generally have some form of governmental control.

Advantages of Cooperatives

1. The membership of a cooperative society is open to all persons with a similar background.
2. Its main motto is to serve the society.
3. It supplies the goods and raw materials to its members at a cheaper rate.
4. It provides a platform to its members to jointly market their goods in an effective and efficient manner.
5. The cost of management is low in a cooperative.
6. Surplus if any is shared by its members.

Disadvantages of Cooperatives In spite of the lofty ideals that constitute the philosophy and spirit of the cooperative form of business organisation, it is beset with the following limitations:

1. Cooperation among large number of members of a cooperative is something which is quite difficult to attain.
2. There is lot of political and governmental interference in the functioning of cooperatives.
3. Cooperatives face a general lack of professional management.
4. Over a period of time, they become dependent on government aid and assistance which takes away their autonomy.
5. There are numerous examples of cooperative failure and a limited number of successes like Amul.

Government Business Entities

The Government also gets involved into business activities due to several reasons. It establishes different forms of business organisations to conduct business-related activities. In India, the Central and State governments can establish the following forms of business organisation.

(a) ***Departmental Organisations***: This type of organisation is set up for a specific business unit such as post, telephone, airways, radio, etc. Its management lies in the hands of civil servants or employees.

(b) ***Public Organisations:*** A public organisation is formed by the Central or state Government for a specific purpose the legislature passes an act for the establishment and management of public organisation. Some of these organisations are Reserve Bank of India, Food Corporation of India (FCI) and Industrial Finance Corporation of India (IFCI), etc.

(c) ***Government Companies***: These companies are owned by the central or state government with majority of shares in their hand. No special statute is required to form a government company which could be registered as a public limited or private limited company. Its management lies with the government. Section 617 of the Companies Act, defines a government company as "A company in which not less than fifty one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments. A subsidiary of a government company is also a government company". Some of the examples of government companies are: Steel Authority of India Limited, Bharat Heavy Electricals Ltd., etc.

As each form of business organisation has its own advantages and disadvantages, it is for the owners and entrepreneurs to decide that which form would best meets their requirements. While choosing a form of business, the following important factors need to be considered:

- Potential risks and liabilities of the business.
- Growth prospects of the business.
- Likely rate of return on the investment.
- A comparison of formalities and expenses involved in establishing and maintaining the various business structures.
- Income tax situation with respect to the business organisation.
- Investment needs of the business organisation over a period of time.

It must be understood that the different forms of business entities do not exist in isolation. They consist of internal subsystems and are surrounded by different constituents of external systems. The success of a business organisations depend on the fact that how effectively its management aligns it with the internal and external environments.

Points to Remember

(a) The different characteristics of business are: economic activity, profit motive, risks and uncertainty, capital, organisation, creation of utility, provision of goods or services, regular transaction, commerce, human element, and social welfare. The following activities are excluded from business: social service activities, personal consumption activities, religious and spiritual activities, and illegal activities.

(b) All business organisations have one underlying purpose—to generate profit or surplus as a return on investment in a socially acceptable manner. Other purposes are: to create and keep customers, to maximise shareholder-value a legal and ethical manner, and obtain optimum balance in the interest of shareholders, customers, employees, suppliers, and plant community cities.

(c) The business organisations are classified as Sole Proprietorship, Joint Hindu Family Business, Partnership, Joint Stock Company, Cooperative Society and Government undertaking.

(d) A sole proprietorship is not a separate legal entity. It is small business owned, managed, controlled and financed by a single owner who has unlimited liability. Other characteristies are: easy to establish and wind up, minimum formalities and regulations with respect to its management and record keeping, and no perpetual continuity. Profit and loss belong to the owner only. Business is not taxed separately from its owner.

(e) Partnership is an association between two or more persons (not more than twenty) to carry on a business. It is not a distinct legal entity. It has unlimited liability, but no perpetual continuity. If one partner dies, retires or is declared insolvent, the partnership is dissolved. Other characteristics are: restriction on transfer of share by a partner without the consent of other partners, auditing of financial statements not necessary; partnership can be formed by a written or verbal agreement, written agreement is necessary if the ownership is not equally divided among the partners; business may be carried on by all partners or one or more partners but profits shared by all partners as per their agreement.

(f) A joint stock company is an incorporated voluntary association of its members. It is an artificial person created by law, that is, different from its investors who have limited liability. The company enjoys perpetual succession until it is dissolved through a procedure laid out by law. Other characteristics are: signs with a common seal; can raise a large amount of capital by issuing shares of small denominations; capable of owning, enjoying and disposing of property in its own name; pays taxes on corporate profits separately from its investors; files annual reports with the Registrar of Companies.

(g) The joint stock companies can be classified into different types on the basis of following parameters:
- On the basis of incorporation: Chartered Companies, Statutory Companies, Registered Companies.
- According to liability: Companies Limited by Shares, Companies Limited by Guarantee and Unlimited Companies.
- According to transferability of shares: Private Limited Company, Public Limited Company.
- According to nationality: Indian Companies, Foreign Companies.
- On the basis of ownership: Government Companies or Public Sector Companies, Private Sector Companies (Holding Companies, Subsidiary Companies), Joint Sector Undertakings, One Man Company.

(h) Formation of a company requires coming together of promoters, going through the process of incorporation, grant of the certificate of incorporation, and commencement of business.

(i) Memorandum of Association (MoA) is a document that provides people essential information about a company. Its constituents are: Name Clause, Registered Office Clause, Object Clause, Liability Clause, Share Capital Clause, Association or Subscription Clause.

(j) Articles of Association (AoA) include the rules, regulations and guidelines for the internal working of a company. These contain information about shares, procedure and frequency of the board meetings, guidelines about the accounting records, list of directors, policy with respect to issue of dividends and maintenance of reserves by the company, etc.

(k) A company can be wound up only by adopting the procedure laid out by the law. The different modes of winding up a company are: voluntary winding up initiated by resolution of the company in its general meeting, winding up under the supervision of the court, and compulsory winding up by the court initiated by a petition to the court.

(l) Due to the lifting or piercing of the corporate veil under certain conditions, the shareholders lose the right conferred by the Limited Liability Clause. They can be held accountable personally for paying the debts of the company at the time of its liquidation.

(m) The cooperative form of business organisation is an association of people from a common background for protecting or enhancing their interest through a cooperative effort. Individually, these people are able to protect their commercial interests because of lack of scale, competencies and resources. Therefore, they join hands to form a cooperative society.

(n) The important factors to be considered while choosing a form of business ownership are: potential risks and liabilities of the business, growth prospects of the business, likely rate of return on the investment, formalities and expenses involved in establishing and maintaining the various business structures, income tax liability, and investment needs over a period of time.

Review/Discussion Questions

1. Define business.
2. What constitutes the scope of business?
3. What is the purpose of a business organisation?
4. What are the characteristics of a business organisation?
5. What makes a business organisation excellent?
6. What are the different forms of business organisation?
7. Enumerate the characteristics, advantages and disadvantages of sole proprietorship.
8. What are the characteristics, advantages and disadvantages of partnership?
9. What are the advantages and disadvantages of sole proprietorship over partnership?
10. Enumerate the characteristics, advantages and disadvantages of joint stock company.
11. How can we classify companies on the basis of different parameters?
12. What are the advantages and disadvantages of different types of companies?
13. Compare and contrast the advantages and disadvantages of different forms of business organisation.
14. Elucidate the process of formation of a company.
15. Describe the role of Memorandum of Association and Articles of Association in the formation of a company.
16. What is the process for winding up a company?
17. What are the characteristics, advantages and disadvantages of cooperative society?
18. What are the factors that must be taken into consideration while choosing a form of business ownership?

Field Exercises/Class Exercises/Group Projects

1. Ask students to visit business organisations in their vicinity and try to procure their 'Partnership Deed' or 'Memorandum of Association' or 'Articles of Association' and discuss them in the class.
2. Ask students to interview the heads of different forms of business like sole proprietorship, partnership, joint stock company and cooperative society and try to identify the following elements with respect to them: Reasons to select a particular form of ownership, advantages, disadvantages, problems faced, future aspirations, etc.

On the Internet

1. Visit http://www.moneyinstructor.com/lesson/businessownership.asp to undertake some paractical exercises with respect to different forms of business ownership.
2. Visit http://www.entrepreneur.com/startingabusiness/youngentrepreneurscolumnistscottgerber article203254. html to know 10 Tips for the First-Time Business Owners.
3. Log on to http://www.nenonline.org/isp/resources/teaching stories.jsp to read interesting success stories about different leading entrepreneurs.
4. Visit www.ayf.de/documents/Orock.doc to learn how to promote good governance in the NGOs.

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17. Piramal, G. (1998). India's Business Families: The Inside Outside View, Business Today, The Sixth Anniversary Issue, January 7, February 6, 1998, pp.26.
18. BT-Gallup MBA study quoted in Piramal, G. (1998). India's Business Families: The Inside Outside View, Business Today, The Sixth Anniversary Issue, January 7, February 6, 1998, p.26.
19. BT Team (1998). Op.cit, p.21.

Case Study

Evolution of Indian Business Organisations in the 20th Century

Indian business organisations have gone through different phases in the nineteenth and twentieth centuries. These phases can be broadly classified into the following phases on the basis of the nature of ownership-management structure of these entities.

Phase I: Managing Agency Structure Prior to 1969

In India the multi-company entities have existed since the 19th century. Earlier they used to be in the form of European-controlled managing agency houses and then as the Indian business group. The business groups attempted to secure their controls through cross-holdings. These business groups used to bring to the table the reputation of family name as an asset. Such reputational assets reduced contracting costs and improved efficiency, the results of which were shared by all shareholders.

Managing agency structure was widely prevalent in India before the second half of twentieth century. During that time practically every industrial firm in India was organised as a managing agency concern under tight family control with very little delegation of power to the managers. In the times of managing agencies there was virtually no separation of ownership, management and control. In this structure, the Birlas and the Goenkas were directors in almost every type of industrial undertaking, from small jute and cotton textile factories to the biggest automobiles and engineering concerns[14]. Established in 1945, Tata Industries Ltd. was the managing agency for the Tata Group until 1970.

There was lot of criticism against the misuse of power and privilege by Indian managing agents after the last quarter of the nineteenth century. A series of newspaper articles bemoaned the behaviour of the captains of Indian industry.

Phase II: 1969-1990

The Government decided to put an end to the managing agency structure and replace it with the board-managed corporation in 1969. But, only superficial changes were made in the ownership and management structure of the companies. The boards of family businesses were usually comprised of promoter-directors drawn from the family; a few managers with long and deep relationships with the family; friends of the family camouflaging as professionals, non-executive directors; and institutional directors. The maze of multi-layered companies with cross-holdings and intermediate level investment companies still persisted to ensure the centrally-controlled structure of the entire group[15]. In order to retain its influence, the family usually becomes a high-stake investor, who exerts pressure on the management for performance without getting embroiled in day-to-day operations.

Such a pattern is prevalent not only in India but also in many parts of Asia and other parts of the world where major family groups own and manage business empires and retain significant control over decision-making[16].

During this phase some new business groups, like the Ambanis, grew steadily in the 1980s but the industrial scene in India was largely dominated by the old business houses like Tatas, Birlas, Singhanias, Walchand, etc. because of the existence of the Licence-Permit Raj and prevalence of closed economy, which virtually eliminated the existence of international business organisations.

Phase III: Post-1991

The shackles of the Licence-Permit Raj were largely removed and opportunity was there for the Indian business organisations for the first time to grow in accordance with their potential and the market demand.

Multinational companies entered the Indian business scenario and a large number of new family groups emerged on the corporate landscape in the 1990s. Many of them are competing with the old business houses for a leadership position. Most of these new groups grew steadily in the 1980s but came into prominence in the 1990s. They include business families like the Ambanis (Reliance), the Guptas (Lloyds Steel), the Jindals (Jindal Group), the Oswals (OWM and Vardhman), the Singhs (Fortis), the Shiras (Ruchi Soya), the Mehtas (Torrent), the Lohias (Indo Rama), the Dhoots (Videocon), and the Premjis (Wipro). They have significantly outsmarted the former stalwarts such as the Dalmias, the Modis and the Walchands. Of the top 100 companies in the private sector in 1997, 67 were family-run and 24 were transnational affiliates. The robustness of the new family groups and the vitality in at least a dozen of the older established family businesses make it evident that family business in India is not just alive but kicking[17].

BT-Gallup MBA study (1997) identified that the two biggest strengths of the business families of India are: their understanding of the Indian environment, and the image that they have built in the society over the years. The CEOs and senior managers who participated in the survey perceived that the understanding of Indian business environment and political savvyness was the biggest strength of the Indian business families. The survey indicated the following five threats to the Indian business: splits, succession-planning, takeovers, transnational competition, and lack of focus. Transnational companies pose the biggest danger followed by splits in the family[18].

But, parallel to it some professionally managed companies with powerful board have also come into existence. The Tata Group has acquired a considerable size by maintaining an ideal balance between a professionally managed group and a family-run one. The group has a federal structure that reveres its head, the chairman of the Tata Sons' board, but provides considerable powers to the heads of group companies. Similarly, in 1997, Vikram Lal set a precedent by renouncing all executive posts at the Rs. 916-crore Eicher group despite holding 60.53 per cent of its equity. Lal opted to head a supervisory board to guide, but not control, the six companies in the group.

Opportunities for Business Houses in Post-Liberalisation Scenario

Rapid growth and economic development is presenting vast opportunities for Indian companies to scale up and build global brands and organisations. Some of the organisations have grown leaps and bounds in this context. Companies like Suzlon Energy have purchased 86 per cent stake in RE Power in Germany; the Tatas have acquired Tetley, Daewoo's truck operations, Ritz Carlton, Corus steel and Jaguar and Land Rover, etc. Many other Indian brands like Mahindra, Wipro, Infosys, Ranbaxy and Dr. Reddys have become well known and respected in international markets for their quality products and service excellence. As Thomas A. Stewart (*Fortune*, March 15,1999) put it: "The world is your oyster. Do you have the right fork?"

Challenges for Indian Business Houses in Post-Liberalisation Scenario

In 1997, 32 of the country's 50 largest corporations in 1969 were no longer among the Top Fifty. Some of them have faded into oblivion as well. Many large and successful Indian companies have begun to realise that educated, hardworking professionals usually outperform lazy, uneducated relatives. But thousands of small and medium enterprises, which form the core of the private economy, are still struggling with this issue.

On one hand, there is increasing pressure to assign the managing of businesses to professional managers; on the other, the Indian business families can scarcely afford to recede completely to the background, leaving the managing of the business entirely to the professionally appointed managers.

Questions for Discussion and Analysis

1. Which factors contributed to sustenance and growth of certain traditional business houses in post-liberalisation scenario?
2. Which factors contributed to the demise or fading away of certain traditional business houses in post-liberalisation scenario?
3. Which factors led to the emergence of new business houses in post-liberalisation scenario?
4. What should be the right approach for business organisations that were originally promoted by business families to survive, compete and grow in the post-liberalised business scenario?

Chapter 2

Management of Business Environment

The business world is an extension of the kindergarten sand box – but with quicksand.

Richard F Stiegele, Banker

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand what is business environment
- realise the importance of business environment
- comprehend the characteristics and different components of business environment
- understand the way to manage business environment and the steps to be followed to develop a strategy to align business with its environment

INTRODUCTION

A business organisation is greatly influenced by the happenings in its environment. These happenings create new challenges as well as opportunities for the organisation. The business environment strongly influences the achievement of intended objectives, implementation of strategies, internal functioning and even the existence of business organisations.

An environment can be defined as anything which surrounds a system. The environment of business is the aggregate of all conditions, events and influences that surround and affect it. Therefore, the business environment includes surroundings, external objects, influences and circumstances under which a business organisation exists.

The business environment constitutes factors or constraints that form the circumstances under which business organisations and their managements must operate in a particular country. It is largely, if not totally, external and beyond the control of individual enterprises and their managements (Richman and Copen[1], 1972). It represents anything which influences and determines the decisions, strategies, processes operations and performance of a business organisation.

Business environment creates threats and opportunities for different business entities over a period of time. A business organisation must continuously monitor and adapt to its environment if it is to survive and prosper. The successful organisation is the one which is in a position to timely identify, appraise and respond to the various opportunities and threats in its environment. This enables the organisation to make best use of the available opportunities and develop strategies to ward off the threats in a timely manner. To be successful, a manager needs to make the sense of the business environment in which he/she has to operate. He/she is expected to constantly analyse the complex and ever-changing business environment and then accordingly align the objectives, strategies and operations of his/her business with the requirements of the business environment.

CHARACTERISTICS OF BUSINESS ENVIRONMENT

The characteristics that determine the nature of the business environment are described below.

1. ***Environment is Complex:*** The business environment is a complex phenomenon, which might be easy to understand in parts but very difficult to comprehend in its totality. It consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create new sets of influences. Present-day managers have simulation tools, like 'Crystal Ball', that enable them to understand the complexity of the business environment.
2. ***Environment is Dynamic:*** The business environment is constantly changing due to varied influences of its different constituents. Hence, it is dynamic. According to Khanna[2] (1996), post-globalisation, major changes in the business world are impacting business enterprises. These changes are:
   - Globalisation is creating one all-important quality standard for all business organisations operating in different parts of the globe. Therefore, the organisations need to be vigilant about product innovation and quality not only in their country but also in different parts of the globe.
   - Free movement of capital is making it easily accessible. Business organisations need to analyse from which sources should they raise the capital if need be.
   - Technology is no longer the preserve of a few multinational companies and is widely available from different parts of the globe.
   - There is unrestricted flow of information to one and all through the Internet at a very low cost. Customers can easily get comparative information about a large number of manufacturers and suppliers at the click of mouse. Therefore, the competition among business organisation to attract customers has become more tough.

According to Nasser[3] (2000), three major elements of change that are shaping business world are:

1. Falling trade barriers in the international market leading to creation of new markets and competitors.
2. Rising importance and integration of technology in business, which is accelerated by the use of the Internet.
3. Emergence of the information–savvy consumer who is benefiting from the above two developments.

3. ***Environment is seen as an Opportunity or a Threat:*** Business observers have different perceptions about the shape the business environment will assume in the future. A particular change or a new development in the business environment may be viewed differently by different observers. For example, same development may be welcomed as an opportunity by one company while another company may perceive it as a threat.
4. ***Far-reaching Impact:*** The environment in which a business organisation exists has a far-reaching impact on it. The growth and profitability of the organisation depends critically on its environment.

CLASSIFICATION OF BUSINESS ENVIRONMENT

The environment in which an organisation operates can be broadly classified into two categories: internal environment and external environment.

Internal Environment

The internal environment consists of the elements that are within the business organisation and largely under its control. The elements constituting the internal environment are: employees, board of directors, etc.

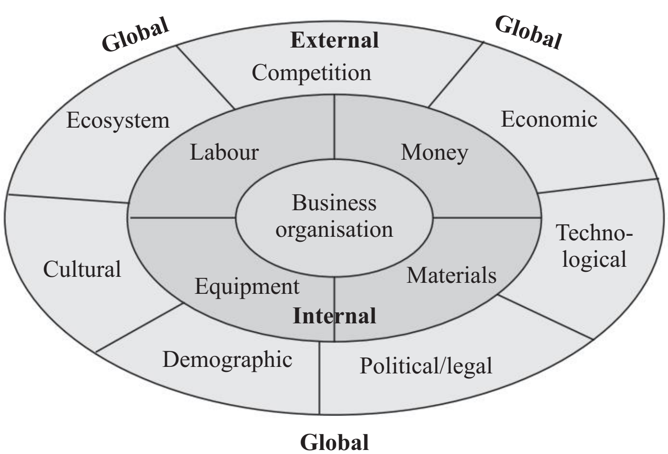

Figure 2.1 Constituents of Business Environment

External Environment

The external environment comprises all the institutions and forces outside the business organisation that have an actual or potential interest or impact on the organisation's ability to achieve its objectives. The elements of the external environment are not within the direct control of the organisation. Therefore, the organisation success depends upon how well it adapts to its external environment. In other words, the organisation's success is determined by its ability to design and adjust its internal environment variables to take advantage of the opportunities offered by the external environment and to control the threats posed by it.

CLASSIFICATION OF EXTERNAL ENVIRONMENT

The external environment can be further classified into two categories: micro environment and macro environment.

Micro Environment

The micro environment consists of different types of stakeholders outside the organisation. The constituents or stakeholders of the micro environment include customers, suppliers, creditors, distributors, dealers, etc. Although these constituents are not under the direct control of the organisation, still they can be influenced by the organisation through its policies and strategies. Any change in the micro environment affects and impinges on the organisations activities directly. That is why it is also termed as Specific (Task) Environment.

Macro Environment

The macro environment consists of constituents that are beyond the control of a business organisation. These constitutents are socio-cultural, technological, economical and political (STEP) factors which constitute their own individual environments. The effect of changes in the macro environment on the business is indirect. Therefore, it is also termed as General (Societal) Environment. An example of a change in the macro environment is the passing of a legislation, which bans smoking in public places. This legislation indirectly affects the business of pubs and restaurants.

CONSTITUENTS OF MACRO ENVIRONMENT

The main constituents of the macro environment are: global business environment, socio-cultural environment, technological environment, economic environment, political environment, demographic environment, legal environment and environmental concerns. These constituents are described in detail in the following sections.

Global Business Environment

The global business environment consists of the policy framework, business sentiment and economic indicators that are prevailing in different sovereign countries. There elements influence the decision-making with respect to demand assessment, resource allocation and profit probability. The global environment has become important for business organisations because the economies of countries are getting highly integrated and becoming increasingly interdependent. With the increasing liberalisation of economies, the government–imposed restrictions on business are gradually diminishing between and within the countries. This change in the global business environment has created huge opportunities as well as threats for business organisations.

The ecological phenomena do not always respect national boundaries. In other words, the environmental problems having origin in one country or region often have impacts beyond national borders; sometimes globally. For example, the impact of global warming and climate change caused by carbon emission in countries, like the US, China and India, can threaten the existence of island states like Maldives.

Influence of Global Business Environment on Business Strategies

(a) Taking a decision whether to go global or not; and if yes, then to what extent.
(b) Deciding upon which markets to enter and which ones to avoid.
(c) Choosing a right strategy and methodology to enter the global market by examining the prevailing business environment in the target countries. For example, if exporting could be a good strategy for one country then setting up a joint venture could be right in the other and a fully owned subsidiary yet in another country.
(d) Developing a strategy to handle the various types of political, cultural, technological and economic differences across different countries and continents.
(e) Deciding upon the various adjustments that are needed in the management process and managerial approach according to the business environment of different countries.
(f) Deciding an appropriate organisation structure for different regions, trading blocks and countries.

Socio-Cultural Environment

The socio-cultural or social environment consists of factors related with the nature of human relationships within a society and the learnt and shared behaviour of different groups of human beings. The social environment is all about the culture in which individuals of that region are educated and/or live in, and the values of the people and institutions with whom an individual interacts.

Members of the same social environment with greater degree of mutual dependence are more likely to stay together. They have mutual trust and do help one another. They will often think in similar styles and patterns even if their conclusions differ. The vice versa could be true for an individualistic social environment. The social environment greatly influences the nature of consumer demand, the consumer decision-making, etc. Thus, this component of the business environment strongly influences the behaviour of the individuals of a group, which further has an impact on the practices adopted by business organisations.

An important aspect of the social environment is related to the values that consumers hold. These values revolve around a number of fundamental concerns like time, quality, health, environment, home, personal finance and diversity. Any shift in the values of a society directly or indirectly influences business.

The success of a business entity significantly depends on its social relevance. Therefore, it is important for the entrepreneur or the strategic planner of a business organisation to be familiar with the prevalent and emerging social trends and concerns. The entrepreneur should be able to assess their likely impact or his/her business.

Impact of Social Environment on People and Business The following points highlight the significance of the social environment in moulding people's behaviour and its impact on business organisations.

(a) Social environment creates or influences the attitude, personality, thought process and behaviour of the people who are part of it.

(b) It determines or influences consumption patterns and demand for goods and services in a society.

(c) People's attitude towards business and work is also strongly influenced by the culture in which they are born and brought up.

(d) The extent of collectivism and individualism in the thinking and behaviour of people is strongly influenced by their culture. This further affects the behaviour of individuals as consumers.

(e) Concern for environmental pollution, attitude towards consumerism, use of mass media and the role of business in society are strongly influenced by the culture of a society.

(f) Demonstration of ethical behaviour in business decisions, corporate governance practices, attitudes and actions towards social responsibility are also strongly influenced by the socio-cultural ethos of society. For example, the high level of consciousness in some societies about global warming and climate change has forced businesses to develop green products and services for those societies. The social responsibility of environment-friendly businesses is likely to help them flourish in such societies, which are more environment conscious. However, they will have little impact in a society where people are not aware about the impact of their lifestyle on the environment.

(g) Awareness about the rights and the work ethics of the members of society are strongly affected by its socio-cultural milieu.

(h) Parameters of social division, like the caste system, too have an impact on the attitudes and thinking of people as consumers of goods and services.

(i) Although different regions, countries and states, have their own distinct cultures, yet some elements of particular cultures are getting globalised with the increased movement of people and the global spread of the media due to the use of communication technologies.

Technological Environment

The technological environment comprises factors related to the type of materials and levels of machines that are used in manufacturing goods and services in a given market. It also represents the degree of advancement of goods and services that are prevalent in a country or a region.

Receptivity and adoption of a new technology by consumers strongly influences the decision-making of business organisations. It also has an impact on the level of investment made by business organisations in the domain of technology.

Impact of Technological Environment

(a) The technological environment depicts the state of advancement and acceptance of technology in a given region or a country.

(b) The dynamic changes that frequently occur in the technology of a particular industry can give competitive advantage to those business organisations who are quick to adopt the latest technology.

(c) Incorporation of technology influences an organisation's productivity.

(d) Changes in the technological environment influence a business organisation in the form of technological innovations, new product development, rise and decline of products and services offered by the organisation and the amount of money it spends on research and development.

Some of the factors related with the technological environment that influence managerial decision-making are stated below.

1. Source of a technology like company source, country of its origin, cost of technology acquisition, nature of collaboration in technology transfer.
2. Impact of technology on human beings, the man-machine system, and the environmental effects of technology.
3. Stage of development of a country or a region, rate of change of technology, technology life cycle and investment in research and development.
4. Communication and infrastructural technology in management.

As it is evident from data presented in Table 2.1, major technological innovations had a significant impact on different industries like Information Technology or Health Care as well as on a sector of an economy like manufacturing.

Table 2.1 Major Innovations in the Technological Environment of three Sectors

Manufacturing	Information Technology	Health Care
Lean manufacturing	Television	Antibiotics
Supply chain management	Microprocessors	Heart Surgery
Automation of machines	Fibre Optics and Lasers	Transplants
CNC	Internet	Biotechnology
Robotics	Cell phones	Tele-medicine

Exhibit 2.1 cited below makes it evidently clear that how a technology can shape, influence or transform the entire industry dynamics.

Exhibit 2.1 How Technology can Transform Banking

Rising rentals and staff costs are pushing Indian banks to go for 'Lobby Banking', which represents a bundle of sophisticated automated consoles and next-generation software, which enable customers to carry out most banking transactions themselves without the assistance or requirement of bankers.

"Lobby banking is a concept where almost all banking services could be offered at a single point through interactive machines," said Sunil Udupa, President and CEO of AGS Infotech Pvt. Ltd., which launched these machines in India in collaboration with Wincor Nixdorf of Germany.

A customer can deposit or withdraw cash (including coins), or cheques, which are automatically 'truncated' electronically and processed for clearance. Cash is instantly credited, while cheques are scanned front and back, signatures electronically verified and the data transmitted to the Reserve Bank of India's electronic cheque clearance system.

Smaller players like Yes Bank and ING Vysaya are already testing them, while the RBI is testing the back-end of the cheque truncation process.

"Lobby banking provides clients with a very easy way to do basic transactions. It helps banks reduce traffic for cash and basic enquiries and serve customers beyond banking hours. Electronic banking can produce real-time information for clients at a much lower cost per customer interaction," says Yes Bank's Ravishankar.

Source: Reddy, B.S.S. (2007). "Banks without Bankers", Hindustan Times, Chandigarh, November 30, 2007, pp. 16.

Thus, it is evident from Exhibit 2.1 that almost all facets of bank functioning—like customer service, requirement of employees, cost of operation, delivery process, efficiency and effectiveness of the entire system of depositing and withdrawing cash—would be affected with the implementation of this technology. As few banks would implement this technology ahead of others, the entire competitive dynamics for other banks would get considerably affected, creating a requirement for them to change or transform the manner in which their banking is done.

Various issues relating to Technology Management are discussed in detail in the chapter on Technology Management.

Economic Environment

The economic environment consists of macro-level factors related to means of production and distribution of wealth in a country or region. These factors have a significant impact on the demand and supply of a business of an organisation. These also determine the feasibility of a country or a region for the conduct of a particular business from a financial perspective.

The purchasing power of consumers and consumer confidence or insecurities strongly influence and impact the demand for the products and services of an organisation. It is an important element of the economic environment. In management decisions of all businesses, the economic environment comes up for prime consideration. The economic environment includes the following factors that influence the investment criterion and financing decisions.

(a) The current state of global economy and what it is likely to be in the near future.
(b) Economic indicators of local economy—both in present times and what they are expected to be in the near future.
(c) Demand dynamics for a particular product in a given market.
(d) Supply situation of a particular product or service at a particular time.
(e) Situation with respect to the factors affecting the pricing of products and services.
(f) Degree of competitiveness in a particular market.
(g) Likelihood of short- and long-term profitability because of multifarious factors.

The economic environment in a country is created and shaped by the following policy framework and instruments:

(a) ***Economic System:*** The economic system determines the degree of attractiveness for doing business in a country based on certain economic factors prevalent in that country. These are:
   - Economic structure of the country such as capitalistic, socialistic or mixed economy, etc.
   - Nature of economic planning in the country: five-year plans, annual budgets, etc.

(b) ***Economic Policy:*** The economic policy comprises different sets of policies formulated by the government from time to time. These policies create a framework within which a business operates. These policies are the tools in the hands of the government to give a desired direction to the economy and business activities in a country. Following are some of the economic policies.
   - **Industrial Policy**: It determines the basic definition for the different types of industry (small, medium and large). It outlines the provision of different incentives to different types

of business entities. It also lays down conditions for setting up a business organisation in a particular country.

- **Fiscal Policy**: This policy instrument determines the rules and regulations with respect to the nature and extent of taxation and expenditure by the government. The extent of tax collection and government expenditure in different domains significantly impacts the profit position of a business entity.
- **Monetary Policy**: This policy framework influences the extent of money supply in an economy. Depending on the requirement of a country to give boost to growth or to control inflation, its government makes modifications in the monetary policy. These changes impact both the availability and the cost of funds for business organisations. The monetary policy also influences the value of the national currency in the international market, thus impacting the profit position of the companies operating in the global market.
- **FDI Norms**: These norms regulate the flow of foreign direct investment (FDI) in different sectors of economy in a country. These norms by encouraging or restricting the FDI flow influence the availability of financial resources as well as the nature of competitive activity in an industry.

(c) ***Economic Indices:*** Different indices are developed in order to determine the overall strength of an economy. They provide an indication to a business organisation whether a particular country would offer a viable market for its products/services or not. Some of the economic indices are described as follows:

- **National Income**: Computed in the terms of Gross National Product (GNP) or Gross Domestic Product (GDP), the overall national income gives a fairly good idea about the size of the economy of a country.
- **Distribution of Income**: It describes how the wealth is scattered or distributed among the population of a country and thus directly influences the market size for different industries.
- **Rate of Growth of GNP**: This factor clearly indicates the rate of growth or contraction of the economy. This index helps business organisations plan for the likely demand for their products and services in the near future.
- **Per Capita Income**: This figure indicates the average income of the citizens of a country. It is an indicator of the level of richness or poverty that might be prevalent in a country. The citizens of countries with higher per capita income are affluent and offer market for premium and values added products.
- **Value of Imports and Exports**: Higher quantum of exports by a country reflects upon the strength of its economy, which further determines the strength and value of its currency. These factors have a significant impact on the cost and demand of different products and services and the profitability of business entities.

(d) ***State of Economic Infrastructure:*** The extent to which the financial or economic infrastructure is prevalent in a country determines the ease of doing business in that country. It consists of factors like:

- Nature and extent of the spread of financial institutions and banking infrastructure.

- Quality of modes of communication and connectivity among different facilities like banking, service providers, etc.

(e) ***Strength of Money and Capital Markets:*** The extent to which the capital markets are developed in a country determines the possibility of raising of low-cost funding by companies from general public and institutional investors. Thus, it influences the cost of capital and the overall profitability of business entities.

Economic Trends and Events that Affect Business Performance All the companies (small or large), that are engaged in strategic planning, examine the economic environment of markets that they are operating in. The following economic trends and events affect the performance of businesses.

- Depression or resurgence of economies that result in the rise or decline or stability in economic growth rates at global and national levels.
- Availability of foreign investment in the form of FDI and FII.
- Extent of regulation and management of national economies and financial sector by the government.
- World food production levels at a particular time.
- Rate of inflation in an economy.
- Extent of liberalisation, globalisation and integration with global economy.

For example, the USA is a market of high value and low growth whereas the Indian market is of low value and high growth. Therefore, the nature of the customer demand is different in these two markets, and accordingly different types of products have to be offered in these two markets in order to be successful. For example, Scorpio, an SUV model of the Mahindras, was able to revolutionize the SUV market in India. But the same model could not repeat its success in the US market, initially.

Sources of Information for Analysing Economic Environment Relevant published information is usually gathered, analysed and interpreted by business organisations for use in future planning and managerial decision-making. This information can be obtained from the following sources:

- A company can occasionally buy specific and detailed economic information from private sources.
- Information is available from government sources.
- Information is available in publications like journals, magazines, newspapers, etc.
- Some information can also be obtained from different government and private websites that gather and publish economic data.

The information about the economic environment can be analysed by an organisation by applying econometric models and different computer software applications for arriving at meaningful conclusions. Large corporations with many divisions have developed their econometric models of different businesses. The data used for these models are stored in online databases which are regularly updated.

Political Environment

The political environment consists of factors related to the management of public affairs that have a considerable impact on the business of an organisation. A political system serves as a primary factor for economic development if it is stable, honest, efficient and dynamic; ensures political participation of the people; and, assures security to citizens and business organisations.

It impacts the legislations and government rules and regulations under which business organisations operate in a country. The political system prevailing in a country decides, promotes, encourages, directs and controls the business activities of that country. All business organisations operation the country have to abide by the provisions laid down by its political system as the law of the land.

Governments around the world help their domestic industries and strengthen their competitiveness through various fiscal and monetary measures. Political support can play a key role in the industry's search for markets abroad and without it the industry may face a difficult situation.

The influence of political environment and political trends on business is enormous. For example, in the United States one can expect greater emphasis on social programmes and an increase in government spending on social welfare activities when Democrats are in power in the White House. Therefore, companies in the business of providing social services may expect greater opportunities during Democratic administrations.

Top management of business organisations needs to study both domestic and foreign political happenings by reviewing select published information to keep in touch with political trends and interpret the information pertaining to their industry in order to develop effective business strategies. The political environment of a country or a state needs to be taken into consideration before entering a market to avoid the abandoning or failure of a project. For example, TATA Motors was forced to shift their car assembly plant from Singur in West Bengal to Gujarat due to the unfavourable political environment in Singur that it could not foresee earlier. This not only led to the loss of crores of rupees but also affected the original plan for the launch of 'Nano' car.

The political environment includes the factors outlined below:

- Nature and strength of the Constitution of a country.
- Degree of stability of the government and expected change in policies with the change in government.
- Role and authority of legislature, executive and judiciary.
- Role and approach of the government with respect to business— whether it is pro-business or neutral or anti-business.
- Level of regulatory burden and red-tapism in a state or a country.
- Nature and extent of political corruption prevalent in a state or a country in matters with respect to business world.
- Provision of public works services.
- Degree of fairness and transparency in allocation of business to different competing organisations.
- Nature of legislation with respect to labour market regulation.
- Constitutional provisions with respect to starting a business and closing it.

- Probability of getting timely justice if such a situation arises.
- Extent of policy predictability.
- Nature of property rights.
- Strength of contract enforcement.
- Design and implementation of regulations with respect to controlling startups, bankruptcy, competition law, and entry into finance and infrastructure markets.
- Prevalence of peace and security and threat of terrorism.

Symbiotic Relationship between Business and Government As is evident from Figure 2.2, both business and government need each other. Business provides taxes, employment opportunities, foreign currency earnings through exports; income to government services and support to governments of different political parties; and, strengthens the overall economy of a country. The government, on its part, provides security, policy framework, regulations, contract enforcement, physical and financial infrastructure, support to exporters and protection to domestic companies.

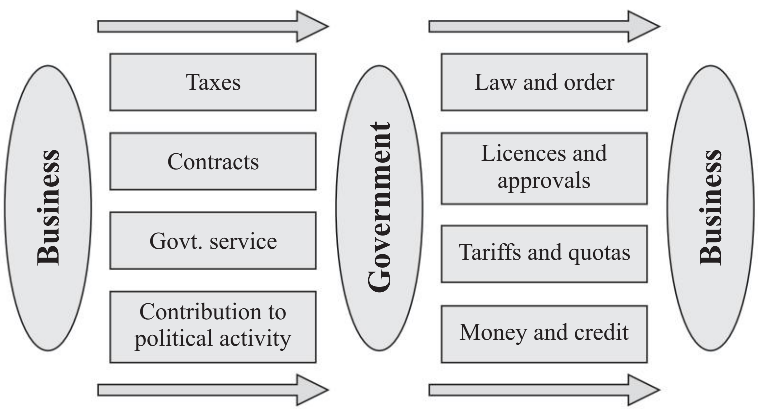

Figure 2.2 Symbiotic Relationship between Business and Government

Demographic Environment

The demographic environment includes factors like size, density and location of human populations; distribution of a particular market in terms of age, gender, race, occupation; and, other statistical information. These factors have a considerable impact on the business as they determine the size of the market for different types of products and services and also influence the cost of serving that market.

Legal Environment

Every country follows its own system of law. The companies operating in the global market have to take into account the provisions with respect to the legal environment prevalent in the countries with which they do business.

Companies also have to take into consideration the probability of grant of justice and the speed at which the justice is likely to be delivered to the complainant party. The strength of the judiciary varies from country to country. All these factors affect the security of the investment made in a country and thus influence the decision to undertake business in that country. The legal provisions also impact the nature of business organisation that a company would like to establish in a country.

Environmental Concerns

Issues relating to greener environment and pollution control are emerging as key global forces affecting the business decisions. These issues assume significance not only due to global agreements like the Kyoto Protocol to reduce carbon emission but also because of rising consumer preference for environmentally sustainable products and services.

In a recent study, the Global Carbon Project stated that carbon emissions from human activity have grown nearly four times faster during 2000-2007 than in the 1990s. The emissions grew at 3.5 per cent per year between 2000 and 2007 as against 0.9 per cent per year between 1990 and 1999. In the wake of damaging consequences that are predicted on account of global warming and climate change, business organisations would have to change their practices and methodologies significantly to make themselves environmentally sustainable. Environment consciousness has emerged as a dominant global force which no organisation would afford to ignore in the near future. Of the 151 proposed coal power plants in the USA, 59 have been cancelled, either because the state regulators refused to give licences or due to strong opposition by local population.

To overcome the challenge of environment pollution, companies have to clean up their processes or buy carbon credits. To do this, first and foremost, companies must measure their carbon footprints that is, how much carbon they emit. Then they must use new technologies to reduce these emissions. Finally, they need to create new, clean alternatives to their existing product lines. Here, the green initiative, undertaken by GE, is noteworthy. GE's Ecomagination initiative, which began in 2005 with 17 products and $ 700 million in research, had 60 green products with $ 17 billion in revenues and $ 1 billion in R&D in 2008. The company's order book stands at $70 billion. In just three years, the company witnessed huge demand for such products and solutions.

David Wheat, whose consultancy firm Hara Bara Inc. helps SMEs transit to low-carbon mode, says that turning green may be India's best chance to "steal a march on the Chinese". Earlier, consumers wanted cheaper products. So, retailing giants such as Wal-Mart went to China to source them at low prices. Now, they want environment-friendly products. "Indian companies will be able to supply these," says Wheat[4] (2008).

(Different approaches and strategies to enable business organisations manage the vital concern of environment and emerge as environmentally sustainable has been discussed in detail in Chapter 3 on Corporate Social Responsibility.)

HOW TO MANAGE BUSINESS ENVIRONMENT

Management of the business environment includes all the activities that involve prediction and utilisation of external and internal forces in favour of business, so that they could result in a positive impact on business outcome or their negative impact is reduced or minimized.

Managers must learn to deal effectively with sudden global changes (like currency fluctuations, sharp changes in prices of petroleum products), multiple cultures and political systems in the midst of rapidly changing markets and technology. As presented in Fig. 2.3, managers must be able to anticipate the changes that happen in the ever changing business environment in order to develop strategies and competencies at all levels in their organisations to effectively deal with this dynamic phenomenon that too in a timely manner.

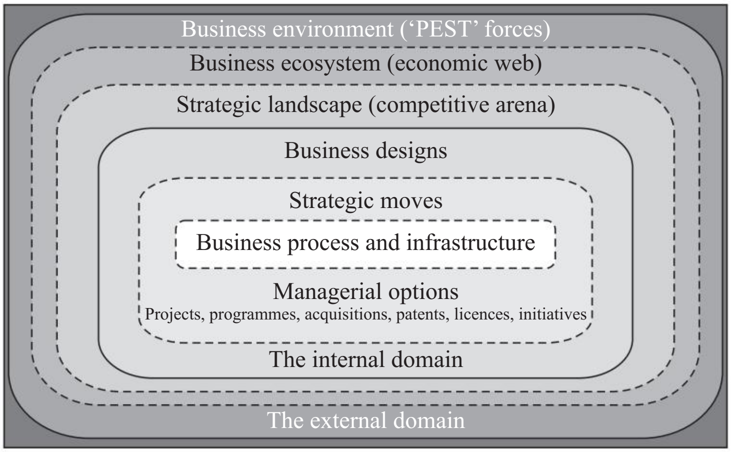

Figure 2.3 Management of Business Environment

Source: Adapted from 'Managing Complexity' Robin Wood www.1000ventures.com/business_guide/business_environment.html.

Although the impact of changes in the business environment may be felt throughout a business organisation, it is felt the most on the strategic perspectives. To cope with a complex and dynamic environment, the individuals involved in strategic planning for different functional areas must find new ways to forecast the shape of things to come, analyse strategic alternatives and, at the same time, develop greater sensitivity to long-term implications.

Given below are the steps that can help a practicing manager plan and develop strategies to deal with and manage the business environment in order to gain favourable results.

1. ***Be vigilant about broad trends appearing in the business environment:*** Broad trends in different constituents of the business environment and their impact on the business entity may be reviewed from time to time. For example, in the area of technology, the trends in energy utilisation, material science, transportation capability, mechanisation and automation, communications and information processing may be studied to determine the most appropriate application of technology for the business.

   Banerjee[5] (1999) has classified the process of analysis of the business environment into the following four stages.

   - **Scanning**: This step involves exploratory identification of emerging trends in the business environment, which can have a significant impact on the business.
   - **Monitoring**: It includes an in-depth analysis of the trends that are perceived to be relevant for the organisation after they have been identified at the monitoring stage.

- **Forecasting**: It is an endeavour to determine the likely direction, scope, and intensity of a business environment trend in the form of the extent of opportunity or threat.
- **Assessment**: This stage involves determination of the extent of implication of the environmental trend on the business of the organisation.

Effective executives scan the following seven situations for generating opportunities for their organisations (Drucker[6], 2004).

- Changes in the industry and market structure.
- Changes in demographics of the market.
- Changes in mindset, values, perception, etc.
- Gap between what exists and what could be in a market in the form of process, product, or service.
- Innovations in the process, product, or service, inside and outside the enterprise/industry.
- Sudden success or failure within the organisation or in the industry.
- New knowledge/technology that can influence the organisational/industry dynamics.

2. ***Determine the relevance of a business environment trend:*** Not everything that happens in the business environment may be relevant for a company. Therefore, attempts must be made to select those trends that have significance for the company. There cannot be any hard-and-fast rules for making a distinction between relevant and irrelevant trends. Management's creativity and far-sightedness would play an important role in pinpointing the relevant trends. Given below are some mechanisms for identifying relevant trends in the business environment:
   - Entrusting a senior person with the scanning of the business environment.
   - Finalising the list of relevant publications that need to be studied to scan the environment.
   - Appointing a person to go through the publications and gather the relevant information.
   - Each piece of information that is gathered may be given a particular code based on the topic. A company can use different codes for different areas such as marketing, manufacturing, customer service, distribution, social trends, etc.
   - A reviewer should analyse the gathered information and present his/her recommendations based on the available information, in the form of an abstract to the scanning committee.
   - Select portions from the reviewer's abstract, that are considered relevant for the organisation, can be disseminated throughout the company through newsletters or other suitable means of communication. This would help in soliciting a response from a wider cross-section of employees about a given trend and its implications.
   - The managers who are most likely to be affected by the disseminated information should be encouraged to contact the scanning committee for detailed analysis.
   - The scanning committee can then present the select trends with detailed analysis to the people involved in strategic decision-making and top management for consideration and approval.
3. ***Examine the likely impact of a business environment trend on a product/market:*** A business environment trend can either pose a threat or create an opportunity for a company's product in a particular market. Organisations need to study the likely impact of this trend on the performance

of their business both in the short and long terms. A manager needs to be given the responsibility of determining the degree of severity of the likely impact.

The impact of a business environment trend is usually gradual. A company needs to understand what will be the future product/market performance in view of an emerging trend if it does not take any action.

It proves advantageous to recognise a trend early and take action, but the company can decide to wait to see which way the trend proceeds. For example, people did not replace their black and white television sets overnight after the advent of colour televisions. Same is the case with new plasma and LCD technology-based televisions which co-exist with conventional televisions.

A variety of reasons may prohibit an overnight shift in markets due to a new trend. High prices, religious taboos, legal restrictions and unfamiliarity with a new product or service restrict sudden and immediate changeover. Thus, the diffusion process of a new trend should be predicted and understood by the strategic planning team before arriving at a conclusion.

4. ***Identify and examine the new opportunities that a business environment trend appears to provide:*** A business environment trend may not be relevant for a company's existing product/market, but it may indicate promising new business opportunities in the near future. For example, the energy crisis provided an easy entry point for fuel-efficient Honda cars into the US car market.
5. ***Relate the outcome of a business environment trend to corporate strategy:*** Based on different trends and their impacts on the business of an organisation, a company needs to review its strategy from two perspectives:
   (a) **Changes that may be introduced in current products/services**: A company usually makes an attempt to align its products and services to the ones that are being offered by its competitors. This continuous upgradation and cannibalising of existing products and services helps a company to remain contemporary. But, even if a business environment trend poses a threat to a company's product/market, it may not always be necessary for the company to immediately come out with a new product to replace an existing one. Neither it is necessary for every competitor to adopt the 'change'. Even without developing a new product, a company may find a niche in the market to which it could cater despite the introduction of a new product by a competitor. For example, the electric razor did not drive the safety razor blades out of the market.
   (b) **Feasible opportunities that the company should follow for taking an action**: Changes in the business environment offer a wide range of opportunities, but a company has to select which opportunities would be the most appropriate for it to follow. This may create a situation of comparing apples with oranges if an organisation has to decide whether to open a hospital or an educational institute.

   Although the environment can be scanned in a structured manner, it is nevertheless an art in which creativity plays an important role. Thus, to adequately study the changing business environment and relate it to corporate strategy, companies should make an attempt to develop a culture that is an ideal blend of creative, analytical and scientific thinking on the part of its managers. All the employees of the organisation should be made an active part of a regular process to scan, identify, analyse, discuss and develop an action plan to align the business with the changing business environment.

Points to Remember

(a) The environment of a business is the aggregate of all conditions, events and influences that surround and affect it.

(b) A manager is expected to constantly analyse the complex and ever-changing business environment and accordingly align his/her organisation's objectives, strategies and operations with the requirements of the ecosystem in which it exists in order to survive and prosper.

(c) The business environment is complex, dynamic, multifaceted and has a far-reaching impact.

(d) The environment in which an organisation exists can be broadly classified into two categories: internal and external environment.

(e) The internal environment comprises the elements that are within the organisation and largely under its control.

(f) The external environment comprises institutions and forces outside the organisation that have an actual or potential interest or impact on the organisation's ability to achieve its objectives. They are not within the direct control of an organisation. Success of an organisation depends on how well it adapts to its external environment. It is further classified into two categories as: micro environment and macro environment.

(g) The micro environment consists of stakeholders like customers, suppliers, creditors, distributors, dealers, etc. They are outside the organisation and are not under its direct control. However, they can be influenced by the organisation. Any change in them affects the firm's activities directly.

(h) The macro environment consists of elements like global trends and social, technological, economical and political, demographic and legal environments of a country, region or trading block. The elements are beyond the control of a business organisation and their effect on its business is indirect.

(i) The steps to develop strategies to deal with the business environment are: be vigilant about broad trends appearing in the environment, determine the relevance of a business environment trend, examine the likely impact of a trend on a product/market, identify and examine the new opportunities that a new trend appears to provide, relate the outcome of a trend to corporate strategy, changes that may be introduced in current products/services, and feasible opportunities that the company should follow for taking an action.

Review/Discussion Questions

1. What constitutes the business environment?
2. What are the characteristics of the business environment?
3. Why is it important for a manager to study and understand the business environment for taking managerial decisions?
4. How can we classify the business environment into different components?
5. What steps need to be followed to develop a strategy to align business with its environment and manage the business in accordance with the environment?

Field Exercises/Class Exercises/Group Projects

1. Identify different industries and allocate them to different groups of students. Ask them to study the different components of the business environment of the assigned industry and submit their study as a

written assignment. They can also be asked to make a formal presentation with respect to their project in the classroom.

2. Allocate different industries to different group of students and ask them to examine how the business environment of the assigned industry has undergone transformation over a period of time.
3. How the consciousness about the environment safety and sustainable development has impacted the business environment of different industries? What strategies have been adopted by business organisations to overcome the environment-related challenges.
4. Interview the owners or promoters of the organisations in the vicinity to know how they have aligned their organisations to the changing business environment.
5. How the advent of the Internet has transformed the business environment of organisations in different industries. Why the degree of impact of the Internet varies from one industry to another?
6. How has the business environment changed for the business organisations in India in the post-liberalisation scenario?
7. Try to identify the changes that the business environment in India may undergo in the next five to ten years.
8. Would India become a developed nation by 2020? What makes you think so? What would be the business environment in India by then?

On the Internet

1. Visit http://www.collector.org/archives/1997_April/08.pdf to read "Small Business Use of the Internet: Finding from Australian Case Studies" by Simpson Poon and then try to apply it to the SME sector.
2. Visit http://www.w3.org/TR/NOTE-framework-970706.html to read W3C Activities Related to the US 'Framework for Global Electronic Commerce' by Joseph Reagle Jr. for understating the business environment with respect to electronic commerce.

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Case Study

Singur: What went Wrong?

Unyielding political brinkmanship from Trinamool Congress leader Mamta Banerjee finally exhausted Tata's patience when two security guards of the Tata Motors' Singur plant were bludgeoned on the night of September 22,

2008. The company's evacuation of heavy machinery on September 23, signalled the end of the Tatas' small-car venture in West Bengal. It not only put at stake the investment of hundreds of crores but also severely threatened the planned roll-out of the Rs.1 lakh car, Nano.

With the loss of sunk cost and other accompanying losses in hundreds of crores, the project cost and profitability has been significantly affected.

A few trade teams from Europe and other places cancelled their visits to West Bengal because of the fear and sense of uncertainty about doing business in the state. Chandrajit Banerjee, director-general of the Confederation of Indian Industry, said, 'It will be a huge setback for Bengal's development'.

At the same time a good number of states came forward proactively to attract this prestigious and high investment project to give philip to the industry and employment in their state. But, Gujarat came out victorious because of a variety of reasons and the offer it made in terms of a complete package.

Ratan Tata's vision for affordable, private transport for millions of Indians finally became a reality in January 2009. But the quantum of vehicles it could produce at the time of launch and near future has been significantly affected because of the Singur fiasco. Tata Motors' engineers worked long, sleepless hours for years; they cut weight, unnecessary parts and costs, and helped Tata keep his promise of a Rs. 1 lakh car. The Nano may not be revolutionary in looks but its unexpected safety standards and bigger interiors than Maruti 800's have forever transformed the automobile sector in the country.

Questions for Discussion and Analysis

1. How the phenomenon of business environment affected the Tata Motors' Nano car project at different stages?
2. Why did Tata fail to analyse the business environment at the outset?
3. What relationship do you see between the political environment and business?
4. For all the stakeholders, there is life after Singur. What lessons can they learn from this episode and get on?

Chapter 3

Corporate Social Responsibility

Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it... because it is good for our business.

— Niall Fitzerald[1], former CEO, Unilever

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand the need, importance and evolution of the concept of social responsibility of business
- understand different constituents and approaches of corporate social responsibility (CSR)
- analyse the arguments for and against the social involvement of business
- understand the nature of responsibility of business towards different interest groups
- comprehend the tools and strategies for meeting the CSR challenge

INTRODUCTION

As the corporate world started playing an increasingly important role in the affairs of the world, it became imperative that it should become conscious and responsible for the consequences of its decisions and activities. The present-day society expects that business should engage in a responsive and, if possible, proactive role for the overall welfare of society.

This sense of responsibility also originates from the fact that business entities operate within society and are dependent on society for getting inputs and marketing their goods and services. Therefore, business organisations need to look after the welfare of their different stakeholders including the society at large apart from providing goods and services.

DEFINITION

The term '*social responsibility*' means different things to different people, No single approach or definition of social responsibility is accepted by academicians and the practising managers' all over the world. The concept of social responsibility, as given by Howard R. Bowen[2], suggests that 'Businesses should consider the social implications of their decisions.' According to Keith Davis[3], 'Corporate Social Responsibility (CSR), refers to the businessman's decisions and actions taken for reasons, at least partially, beyond the firm's direct economic or technical interest'.

So, Corporate Social Responsibility (CSR) is defined as the obligation of a business organisation to take action to protect or enhance the welfare of different constituents of society as a whole along with its own interests. In other words, the domain of the responsibility of business includes all policies and actions that it needs to take to either protect or enhance the interest of society.

An operational perspective of CSR is that the management is responsible to its organisation as well as to all the interest groups with which it interacts. It should respect the natural rights of individuals and has an obligation to honour the contracts with its managers, employees, customers, suppliers and others. At the same time, it should not engage in deception, fraud, force, threats, theft, or coercion against others and honour the representations made to the local community.

CONSTITUENTS OF CORPORATE SOCIAL RESPONSIBILITY PLANNING

The development of a social responsibility plan for a business entity involves the following key areas.

(a) Identification of potential social risks involved in the operations of a business entity.
(b) Development of a strategy to become a socially responsible organisation with a strong commitment of the top management to performing various operations in a socially responsible manner.
(c) Development of programmes and action plans to reduce/eliminate/manage the associated risks in a systematic manner by employing sustainable development practices in business operations.
(d) Ensuring the protection of natural or basic rights of human beings while performing different business operations.
(e) Designing and developing community programmes to enhance the quality of life of the members of the community in which a business entity operates.
(f) Development of metrics to assess and measure the performance of business with respect to social responsibility initiatives.
(g) Determination of mechanism for reporting the performance of social responsibility initiatives to the key stakeholders.
(h) Encouraging the involvement of different constituents in the entire value chain (from suppliers to customers) in adopting socially responsible practices.

DIFFERENT APPROACHES TOWARDS CORPORATE SOCIAL RESPONSIBILITY

Different schools of thought or different approaches in the domain of CSR are discussed below.

- ***The Classical View:*** According to the traditional or classical approach, the only social responsibility of business is to maximise profits (create a financial return for its investors) by operating in the best interests of the stockholders (owners of the corporation). Nobel laureate Milton Friedman[4], an eminent economist, is a strong advocate of this school of thought.

  This approach is based on the belief that expending a firm's resources on doing 'social good' unjustifiably increases the costs and wastes the time and energy of human resources. This may increase the prices of services and products being marketed by the firm. It may ultimately lead to a decrease in profits thus harming the interest of the stockholders of the business.

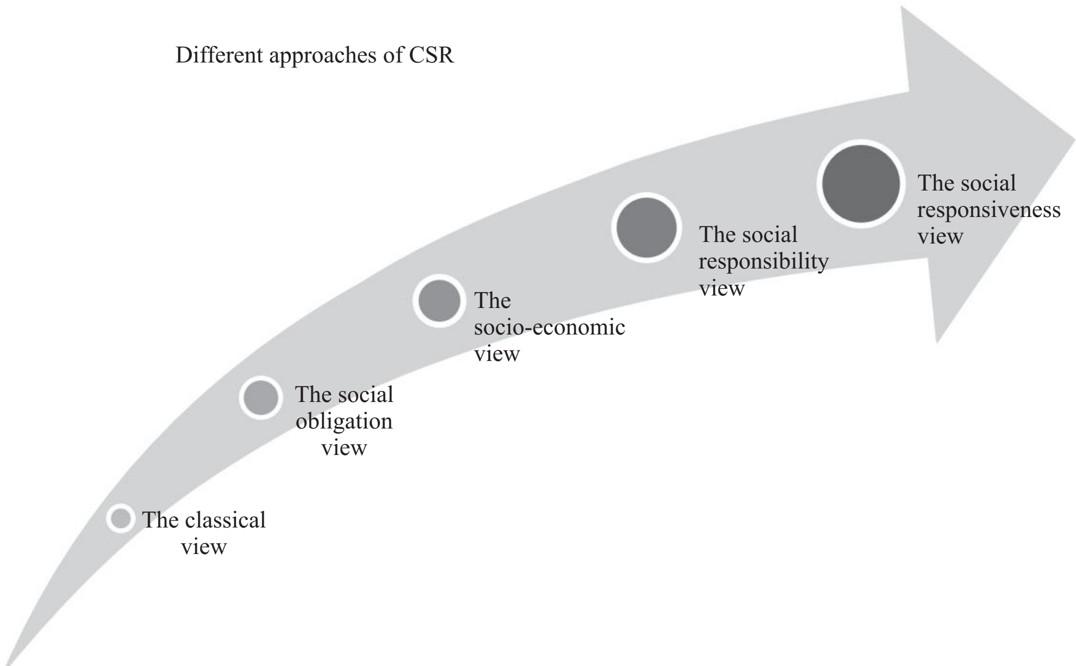

Figure 3.1 Different Approaches Towards Corporate Social Responsibility

  Friedman did not mean that business organisations should not be socially responsible. However, he advocated that the nature of social responsibility of business should be such that it maximises the return on the investment of the shareholders.

- ***The Social Obligation View:*** The proponents of this approach believe that the social responsibility of a business is limited to the extent of meeting its economic and legal obligations. It implies the responsibility of a business entity lies only up to the extent of respecting the law of the land where it operates. An organisation that follows this philosophy pursues those social goals which help it achieve its economic goals.

- ***The Socio-economic View:*** According to this school of thought, corporations are not merely economic entities that are responsible only to their stockholders. They are also socio-economic systems that have an interdependent relationship with the society on which they depend for their resources and profits. Therefore, business organisations need to adopt a holistic approach about their relationship with society. They should go beyond profit-making to include protection and welfare of society among their main objectives.
- ***The Social Responsibility View:*** This approach goes a step beyond the social obligation school of thought. It believes that the social responsibility of a corporate entity as a moral agent extends beyond its legal and economic obligations. The guiding philosophy of this approach is that a business organisation should operate in a manner that makes society better and avoids those actions that could make it worse than it was. In other words, a business entity should act as a moral agent and pursue long-term goals that are good for society.

  The reason for pursuing social goals is that economic pursuits should be undertaken in an ethical manner and not merely because they help an organisation achieve its business goals.
- ***The Social Responsiveness View:*** Social responsiveness means the ability of a corporation to relate its operations and policies to the social environment in the ways that are mutually beneficial to the corporation and to society[5].

Putting it simply, social responsiveness refers to the ability of an organisation to design or modify its business in a manner that would benefit both society and the organisation. The proponents of this approach of corporate social responsibility believe that the entire business needs to be aligned to meet some essential social need, and it should be able to adapt to changing societal conditions.

The major difference between social responsibility and social responsiveness approaches is that social responsiveness is a more pragmatic and action-oriented concept as it focuses on short-term means to attain social objectives by constantly aligning the business activities with changing societal needs. This fact is evident from working of the socially responsible business model of SEWA depicted in Exhibit 3.1.

Exhibit 3.1 SEWA: A Socially Responsive Organisation

Ela Bhatt, or Elaben as she is more popularly known, started a cooperative called SEWA (Self-Employed Women's Association), a grassroots level movement for women engaged in the informal economy, in 1972. The goal of the organisation was to organise these casual workers with no social support through a single platform in order to provide them with full employment and self-reliance.

Ela realised that it would not be adequate if her organisation focused on just one dimension of poor women's varied set of needs. For the poor women to be economically productive, they needed to be provided with health care, child care, shelter and cover against uncertainties. Therefore, SEWA received its mandate from the society in which it operated. In accordance with the needs of its key stakeholders, SEWA's business based on social security initiatives presently offers everything from healthcare, child care, shelter to insurance and banking services to some 5 lakh poor women and their husbands and children in 13 districts of Gujarat.

SEWA's insurance programme, called VimoSEWA, is the largest micro-insurance in the world, covering 1,12,112 women members, their husbands and children. This programme covers everything from life to livelihood to assets. The annual premium for the basic scheme, which covers hospitalisation risks up to Rs. 2,000, accidental death insurance of Rs. 40,000 and household cover of Rs. 10,000, is just Rs. 85. Two other schemes with annual premium of Rs. 200 and Rs. 400 offer greater benefits.

The individuals who are insured by the organisation are encouraged to put Rs. 1000 in a fixed deposit with the SEWA Bank. The interest on this saving goes towards paying the premium, ensuring long-term continuous insurance coverage. Deposit-linked insurance schemes entitle women to maternity benefits and older women to reimbursements for cataract operations, which no other insurance company offers. Thus, SEWA provides to its members comprehensive social security as a holistic solution to the vital needs of the deprived section of society and not just stand-alone insurance policies and bank accounts.

Source: Chatterjee, Mirai (2004). Lady Hope, *Business Today*, 12th Anniversary Issue, Vol. 13, No. 1, January 18, 2004, pp. 113-114.

EVOLUTION OF THE CONCEPT OF SOCIAL RESPONSIBILITY OF BUSINESS

The concept of corporate social responsibility is a legacy of the 20th century. Till the early 20th century, the objective of business enterprises was exclusively economic and they were highly profit-centric. In the light of a favourable demand-supply situation, business enterprises wielded a great deal of power. They could sell whatever they produced because the demand for most of the goods was generally more than their supply. But, over the years, with the intensification of competition and the supply exceeding the demand in a good number of industries, the power of business has declined.

With the strengthening of capitalism, business emerged as a dominant global force. It resulted in establishment of large multinational organisations, whose turnover today is more than the combined GDP of many small countries. It was expected of large business enterprises that they should play a constructive role in the overall socio-economic system. One option was that besides buying and selling goods for profit, business entities should do something in the interest of society. This led to the birth of the concept of corporate social responsibility (CSR).

The concept of social responsibility of business became popular after the publication of S*ocial Responsibilities of the Businessman* by Howard R. Bowen, who was an economist. He suggested that businesses should consider the impact of their decisions on society. During the 1960s, the CSR movement gained further momentum due to the increased public consciousness about the responsibility of business enterprises to follow ethical practices and preserve or enhance natural environment. In the 1970s, the debate on industrial democracy in the UK also spread the awareness about CSR. Soon, governments and social activists started arguing that since business organisations derive their existence from society, they have some obligations towards it.

The cumulative effect of all these forces is that throughout the world, governments, non-profit foundations, charitable organisations, religious bodies and consumers are asking the business enterprises, what are they doing for society? How they are behaving as a socially responsible citizens. This trend is now being further supported by the educated, socially conscious and affluent consumers who have started giving preference to those business organisations which, they believe, are socially responsible. As the technologies are maturing and products and services are getting almost standardised, the social responsibility initiatives are acting as key differentiators. They give competitive advantage in a good number of industries.

NEED FOR CORPORATE SOCIAL RESPONSIBILITY

The need for CSR initiatives arises from a wide variety of reasons as discussed in the following sections.

(a) ***Moral Responsibility:*** Business is a part of society. Rather, it is dependent on society for its survival and growth because it utilizes the available societal resources like power, water, land, roads, etc. Therefore, business managers have a moral responsibility to protect the interest of society. They must take into account the impact of their decisions on different components of environment, i.e. soil, water and air. Today, pollution of natural resources is of great concern to all members of society. Therefore, it is the responsibility of every business not to follow such practices that may lead to degeneration of natural resources, even if it has to spend a part of its profit to achieve this goal. Exhibit 3.2 presents an example of a win-win situation, created by the different practices adopted by ITC, show that business and social responsibility can go hand-in-hand.

Exhibit 3.2 Sustainable Development Initiatives of ITC

The E-Choupal initiative of ITC, comprising 6,400 choupals, transformed the lives of over 3.5 million farmers in 38,500 villages in nine states of India by the year 2007. It hoped to reach out to 10 million farmers in 100,000 villages in the near future.

Since 2002, ITC has achieved and sustained the status of a 'water positive' organisation. Its integrated watershed development programmes in rural areas cover nearly 27,000 hectares providing critical irrigation to water-stressed areas. ITC forged a partnership with the Government of Rajasthan for an integrated watershed development project covering 5,000 hectares.

ITC's initiatives to provide opportunities for non-farm incomes through economic empowerment of women, supplementary education and integrated animal husbandry services continue to make significant contribution in rural empowerment.

Source: Deveshwar, Y. C. (2007) 'Making Markets Work for CSR', address by Chairman Y. C. Deveshwar at the 96th Annual General Meeting, July 27, 2007, Hindustan Times, Chandigarh, July 31, 2007.

(b) ***Government Regulations:*** Lot of legislation has been enacted with respect to solid waste management, and water and air pollution. Managers need to be fully aware of these laws and regulations. They must frame and implement such policies and practices that are environment-friendly in accordance with the law of the land.

If a business organisation is proactive and incorporates environment-friendly practices voluntarily, it can save itself from the forced implementation of strict government regulations, which may force the business to close down. For example, if any business firm pollutes the environment beyond permissible levels, it may ultimately be forced to close down its business or pay huge penalties under government regulations. So, the right choice for the firm is to engage itself in maintaining a pollution-free environment in accordance with government regulations.

In July 2007, Prime Minister of India, Dr Manmohan Singh[7], presented a ten-point 'Social Charter' sharing his vision on the responsibility of corporates for sustainable and inclusive growth. Dr Singh said '*India's industry must rise to the challenge of making our growth processes both efficient and inclusive. This is our endeavour in Government. It will have to be yours too and I seek your partnership in making a success of this giant national enterprise. If those who are better off* *do not act in more socially responsible manner, our growth process may be at risk, our polity may become anarchic and our society may get further divided. I invite corporate India to be a partner in making ours a more humane and just society.*

Some multinational companies have initiated steps towards a cleaner environment. For example, BP-Amoco has undertaken a project for reducing greenhouse gas emissions in all its operations. Unilever has launched an initiative to save water around the world by enabling society to manage water efficiently in various day-to-day activities. DuPont has set itself a target of sourcing 10 per cent of all the energy to be used in its operations worldwide from renewable technologies by 2010. And, oil giant Shell has started investing in a major renewable energy project. Due to all these efforts, the world may be meeting 50 per cent of its energy requirements from renewable sources by 2050[8].

(c) ***Addressing ecological concerns to create clean environment:*** Businesses must incorporate ecological concerns (climate change, water and energy efficiency and preservation of various species of life) in their decision-making. As a major socio-economic force, businesses need to be conscious of their responsibility to operate in a manner that is leading to cleaner environment and sustainable development. If businesses are not able to modify and align their working to address ecological concerns, they may have to pay huge costs for acquisition of carbon credits. They could go out of business if they are not able to operate as per the policy guidelines of environmental treaties like Kyoto Protocol.

Today, two cars per family is a norm in most of the American households. In the developed world, per capita consumption of paper is huge. In China, if two cars per family becomes a norm and the Chinese also start using paper like the people in the developed world, then China will be consuming more oil and pulp than the world currently produces. And, China is just one developing country. There is also India and the rest of the developing world, which will progressively demand the goods that are currently being enjoyed by the people in the developed world. If their demand is fulfilled, then it is quite likely that one day the world may run out of trees, oil and other vital resources.

(d) ***Employee Satisfaction:*** Employees derive great satisfaction from the benefits bestowed on them by CSR activities undertaken by their organisations. Benefits like accommodation, transportation, education, training, etc. fulfil the genuine expectations of employees and make them happy. A happy employee contributes to the long-term prosperity of the organisation. For example, if an organisation spends money on the training of its employees, it will have more efficient people in its workforce by whose increased productivity it can be in a position to earn more profits. There is another good aspect of CSR. When an organisation starts CSR activities for society with the help of its employees, it gives the employees an inherent good feeling of doing something really meaningful for society.

(e) ***Good Public Image:*** The socially responsible and welfare activities earn a goodwill and reputation for a business. This good public image can help it in attracting honest and competent employees to work, investors to invest and favours from governments. The earnings of a business may also rise due to good public image of its activities because some customers prefer to buy products/services of the companies which are engaged in various social welfare programmes.

(f) ***Consumer Awareness:*** Consumers have become more conscious about their rights and also more demanding. They protest against the supply of inferior and harmful products or the unethical practices of certain businesses. To protect the consumer interest, various consumer organisations have been formed. So, today it is in the interest of the business organisations to protect the consumer interest by providing quality products at competitive prices.

Deveshwar (2007)[9], CEO of the ITC group, has highlighted the importance of consumer empowerment in these words: "An enlightened consumer, by exercising a choice in favour of 'socially responsible' enterprises, can unleash a powerful force of incentives. Consumer preference will spur a massive movement in corporate innovation to integrate business goals with the building of societal capital".

(g) ***Trust of Customers:*** Narayana Murthy (1999)[10], founder CMD of Infosys, reiterates the importance of the trust of customers in these words: "Growth comes from repeat business; repeat business comes from relationships, and relationships with customers are built on trust. This trust emanates from the customer's belief that the company will not short charge the customer under any circumstances".

In 2008, global toy manufacturer and marketer Mattel Inc announced three major recalls of Chinese-made toys in little over a month. It recalled over 8,00,000 toys, including the famous Barbie doll's accessories from the world over after the toys were found unsafe for children because of their high lead content. (If a child continuously chews on a lead laced toy, it can affect his/her physical and mental health. Chronic intake of lead causes plumbism, which results in abdominal pain, paralysis and even collapse.) Mattel asked the parents to get full refund or exchange even if they give back only the affected parts of toys. "We don't want the lead-contaminated parts to stay anywhere in the market or homes," said Sanjay Luthra, MD, Mattel Toys, India[11].

The reports of adulteration of milk with melamine in China also led to the recall of more China-made products from the world market. Nokia also had to withdraw its China-made batteries made after a series of explosions in these batteries. One objective of a product recall is to win back the trust of customers, which is crucial for continued customer loyalty to get repeat business.

Although there is an essential need for CSR initiatives to be undertaken by the corporate sector, yet the important question that faces business managers is: If a corporate entity demonstrates a socially responsible behaviour, then what benefits can it expect in return from its investment on various welfare measures. Therefore, to have an idea of this return, the managers have to undertake the important cost-benefit analysis while taking decisions on CSR issues.

ARGUMENTS FOR AND AGAINST THE SOCIAL INVOLVEMENT OF BUSINESS

Whether a company should go for social involvement or not is a decision that requires careful examination of the following arguments for and against the social involvement of business.

Arguments for Social Involvement of Business

- Every business is an integral part of society. It receives its charter from society and is dependent on society for its overall existence. Therefore, society has a valid expectation from business to act, in a responsible manner towards every constituent of society. And, business must respond to the valid needs of society.

- Better social environment is in the interest of business as it benefits in the form of better work-force and more customers for its products and services. If business organisations do not operate in a socially responsible manner and social problems are left unattended, then there may be social turmoil, which may harm the long-term interest of business.
- The social involvement of a business organisation creates a favourable public image and goodwill for the organisation among people. It can have a positive impact on its bottom line by attracting customers, employees and investors towards the organisation. The environment is friendly policy of recycling, reusing and reducing (inputs) can bring in significant cost savings to business enterprises which will have a good impact on their bottom line. There also exists a direct benefit for business organisations in the form tax benefits and opportunity to earn carbon credits by implementing environment-friendly projects.
- Social involvement further increases the power, prestige and influence of business organisations in society and discourages government regulation and intervention. It leads to a situation where an organisation attracts relatively less attention from regulatory agencies. The organisations, known for their socially responsible behaviour, are favoured by governments and regulators in comparison to those with no such background.
- Large and established business organisations have talented managers as well as financial resources to solve problems that afflict society at large. Hence, they should display social responsiveness, at least, to some extent. Business organisations are also relatively more creative and efficient than other forms of organisations. They can come up with innovative ideas to solve social problems and implement these ideas in a cost-effective manner. The degree of responsibility and accountability in the business sector also ensures a result-oriented approach with respect to social responsibility projects.
- By introducing resource efficiency in the non-renewable inputs and using renewable resources, business enterprise can ensure the availability of non-renewable resources for longer time, hence the progress of present generations would not be at the cost of future generations.
- Social involvement provides a feeling of satisfaction to the employees that their organisation is contributing to overall social benefit. This creates a better work environment for employees to be more productive in their endeavours.

Arguments Against Social Involvement of Business

- Investors put money in business for it to undertake economic activity and provide them with a good return. But, the social involvement of business can reduce its economic efficiency and lessen its focus on its core and primary activity. It can increase costs, which can lead to increase in the prices of goods and services provided by business. It is the customers who have to bear the burden of increased prices.
- Rise in prices because of social involvement could weaken the international competitiveness of a company's products and services if its competitors from other countries are not investing in the domain of social responsibility. This could lower its competitive advantage and reduce its profitability. Therefore, social involvement could be detrimental for a business if it comes at the expense of its goals and objectives.

- There is no direct accountability of business towards society. Until a direct and clear accountability of a business organisation can be established, it should not get involved in social responsibility endeavours.
- Business professionals lack requisite social skills to undertake projects to solve the problems of society. Not only it's difficult to implement CSR measures but it's also difficult to assess their impact in terms of a cost-benefit analysis.
- The social involvement of a business is mostly perceived as a superfluous act or a marketing gimmick.
- Business entities do not get full support of other agencies for their CSR activities. In order to be effective, social responsibility projects require participation by outside agencies like government, NGOs, donor agencies and society. Sometimes it becomes very difficult and time consuming or even frustrating to coordinate the efforts of all these stakeholders to implement CSR projects.

RESPONSIBILITY OF BUSINESS TOWARDS DIFFERENT INTEREST GROUPS

Business organisations undertake different social responsibility efforts voluntarily and also as obligations to fulfil the expectations of different interest groups with which they generally interact. These interest groups are: owners, investors, employees, suppliers, customers, competitors, government and society. They are called interest groups because their interest is affected directly or indirectly by each and every activity, policy or action of a business entity. Figure 3.2 depicts a business organisation and its interest groups.

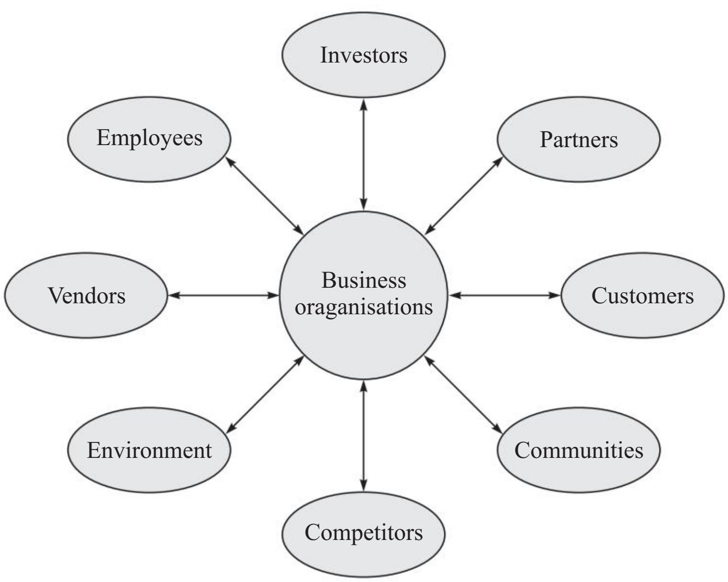

Figure 3.2 Different Interest Groups of Business Organisations

A business organisation generally discharges its responsibility towards its interest groups gradually, i.e. one after the other, as the organisation evolves over a period of time. Boal and Peary[12] (1985) developed a four-stage model to explain the progression of the social responsibility of an organisation. This model suggests that majority of business organisations implement different social responsibility measures in different stages—one after the other. As a result, there emerges a pattern of four stages which has been described below.

(i) ***Stage I:*** This is a preliminary stage of the implementation of the CSR programme. At this stage, the focus of CSR measures is on the owners and investors of the organisation. This stage is more akin to the classical view of social responsibility, where the primary focus is on profit maximisation by fulfilling the legal requirements. The responsibilities discharged in this stage are of two types as described below.

  (a) **Responsibility towards Owners:** Owners contribute capital to start the business and bear the risks associated with doing the business. Therefore, they become primary beneficiary for the business entity. Major responsibilities of a business towards its owners are:
  - Managing the business efficiently and effectively so that the owners can have optimum return on their investment.
  - Proper utilisation of capital and other resources so that the capital is optimally invested for the owners to derive maximum possible return.
  - Ensuring growth and appreciation of the owners' capital.
  - Providing regular and fair return on the owners' capital.

  (b) **Responsibility towards Investors/Creditors:** Investors provide necessary finance by way of investment in debentures, bonds, deposits, etc. Banks, financial institutions and the investing public are all included in this category. The responsibilities of a business towards its investors are:
  - Ensuring safety of the investment of different investors.
  - Regular payment of interest to the creditors.
  - Timely repayment of principal amount.

(ii) ***Stage II—Responsibility towards Employees:*** Business needs employees or workers to execute its essential tasks and responsibilities to achieve its objectives. It is in the interest of a business entity if its employees put in their best efforts to enable business attain maximum benefit from their service. So, it is the prime responsibility of every business to take care of the interest of its employees.

At Stage II, the focus of organisation is on human resource concerns and employee satisfaction. The concern for employees stems from the belief that if the employees are satisfied and efficient, the probability of business to be successful rises significantly. For example, Tom and Kate Chappell have built Tom's of Maine, the personal healthcare products firm, around the idea that businesses need to be compatible with the personal values of their employees.

The responsibilities of business towards its employees include:

  (a) Provision of fair compensation for the services put in by the employees.

(b) Timely and regular payment of wages and salaries.
(c) Provision of proper working conditions and welfare amenities.
(d) Provision of necessary fringe benefits in addition to salary.
(e) A reasonable degree of job security.
(f) Provision of social security benefits like provident fund, group insurance, pension, retirement benefits, etc.
(g) Provision of career planning and opportunity for better career prospects.
(h) Timely training and development for upgradation of skills. For example, Motorola University, has a budget of over \$60 million to train and educate its workforce[13].
(i) Provision of better living conditions like housing, transport, canteen, crèches, etc.

An analysis of Top 25 companies in the 'Great Place to Work' survey in India revealed that most of these companies treated their employees fairly regardless of their religion (95 per cent), race (91 per cent), gender (92 per cent) or age (87 per cent)[14].

(iii) ***Stage III—Responsibility towards Constituents of Specific Business Environment:*** Customers, suppliers, competitors and the government are the constituents of the business environment. Their actions directly affect the business of an organisation. A favourable response from these stakeholders can affect the business performance positively and their negative response can lead to adverse effects on business. The responsibilities of business towards, the constituents of the business environment are described in the following section.

(a) **Responsibility towards Customers:** No business can survive without the support of customers. Business needs to display a responsible behaviour towards its customers in order to acquire and retain them by providing customer satisfaction or delight.

As part of its responsibility towards its customers, the business should provide the following facilities:

- Provision of products and services in accordance with the needs of customers.
- Products and services should be of reasonably good quality.
- Regularity in supply of goods and services and provision of after-sale service.
- Price of goods and services should be such that they are reasonable and affordable for the target market segment.
- The customer must be informed in advance about the advantages and disadvantages of the product as well as the procedure of its use and necessary precautions to be taken while using the product.
- There must be infrastructure for proper after-sales service.
- Grievances of consumers should be resolved quickly to satisfy them. The customer recovery process should be implemented to win over the trust of aggrieved customers.
- Unfair means like misinformation, under-weighing, adulteration, etc. must be avoided.

Exhibit 3.3	Pesticide in Soft-drinks and Worms in Chocolate

In February 2003, the Delhi-based NGO, Centre for Science and Environment (CSE), brought out a test report, which stated that pesticides were found in the bottled water, of various brands including Coke's Kinley and Pepsi's Aquafina. The cola-makers promptly announced they were upgrading their bottling plants to adhere to the prescribed standards.

Four months later, in June 2003, CSE alleged that the pesticide content in soft-drinks was about 30-36 times that of European Union norms. The subsequent months witnessed sharp drop in sales as less and less people were drinking soft drinks. The estimated sales drop was of Rs.120 crore.

In October 2003, worms were found in Cadbury chocolates. The sales of chocolates, especially Cadbury, were also significantly affected for few months after the news came out.

These revelations created a question mark in the minds of consumers about the quality offered by reputed global brands and practices adopted by them.

The implications of these revelations not only led to a downfall in the sales but also cost the companies a lot as they had to spend crores of rupees in advertising and brand building to win back the consumer confidence. The British MNC, Cadbury, had to quickly announce a new packaging system for its chocolates and launched the "Project Viswas" to win back the trust and confidence of the consumers.

Source: Sahad, P.V. (2004). 'MNCs Feel the Heat', *Business Today*, 12th Anniversary Issue, Vol. 13, No.1, January 18, 2004, pp. 22

(b) **Responsibility towards Suppliers:** Suppliers represent the organisations that supply raw materials, equipment and other items required by manufacturers, assemblers and traders to be used in the business process. The responsibilities of business towards suppliers are as follows:

- Giving regular orders for purchase of goods.
- Dealing with suppliers on fair terms and conditions.
- Availing credit for a reasonable period.
- Timely payment of dues to suppliers.
- Helping suppliers in the upgradation of quality and attaining higher productivity.

(c) **Responsibility towards Competitors:** Competitors represent organisations involved in a similar type of business, offering same or similar products or their substitutes. Existence of competition helps a business organisation in becoming more dynamic and innovative so as to present itself in better colours than its competitors. But, competition also sometimes encourages the business to indulge in negative activities like resorting to unfair trade practices. The responsibilities of business towards its competitors are:

- Not to offer exceptionally high sales commission to distributors, agents, etc. as it can create unhealthy competition and destroy industry competitiveness.
- Not to offer to customers heavy discounts and/or free products in every sale. This may erode profitability of these entire industry as competition wars might intensify in order to match discount offers of competitors.
- Not to defame competitors through false or ambiguous advertisements. If an organisation resorts to these tactics, it motivates its competitors to adopt a similar strategy, which is not in the interest of both the organisations.

(d) **Responsibility towards Government:** Business and the government are highly interdependent as they both need each other for their healthy existence. Business activities are governed by the rules and regulations framed by the government, and the government earns huge revenue from the business sector which also helps the economy through employment generation. The responsibilities of business towards government are:

- Setting up business units as per the guidelines of government.
- Payment of fees, duties and taxes those are legally due regularly as well as honestly.
- Not to indulge in trade practices that are illegal, monopolistic and restrictive.
- Conforming to pollution control norms framed by the government.
- Not to indulge in corruption through bribing and other unlawful activities.
- Willingly adhering to the law of land.

(iv) ***Stage IV—Responsibility towards Society:*** Society consists of individuals, families, organisations, social groups, etc. Different constituents of society interact with each other and there exists a direct or indirect relationship among them. Business, being a part of society, also needs to maintain its relationship with other members of society.

At Stage IV, organisation feels a sense of responsibility towards society as a whole. It strives to discharge its responsibility towards different constituents of society in the following manner:

(a) Generating employment opportunities.

(b) Making sure that its practices lead to a sustainable development.

(c) Protecting the environment by reducing the level of pollutants and creating recyclable and reusable products.

(d) Helping the weaker and backward sections of society by developing low-cost solutions for them.

(e) Providing assistance in the field of developmental research on education, medical science, technology, etc.

(f) Involving itself in socially beneficial projects.

(g) Making contribution to NGOs and other organisations which are working for the betterment of society at large.

(h) Making contribution towards preservation and promotion of social and cultural values.

(i) Helping in conservation of natural resources and wildlife, especially the endangered species and threatened resources.

(j) Promoting sports and other developmental activities.

To succeed in this new millennium, companies will have to invest not just in manufacturing and selling products and services, but also in socially relevant areas, where profits and the well-being of people go hand-in-hand.

Exhibit 3.4 Aravind's Low-cost but Profitable Eye Care System Showing Light to the World

Aravind Eye Care System, with five centres and 3650 beds out of which only 775 are paid for and the rest are free, performed 2 lakh surgeries and treated 16 lakh out-patients in 2002. This feat made it the world's biggest community eye care provider. An eye surgery at Aravind is performed in about 25 minutes, and a single doctor on an average performs about 25 operations a day, or about 2600 surgeries a year, compared to the national average of 400 a year.

Despite its low-cost eye care model, Aravind is one of the most profitable hospitals in the country. Says Alfred Sommer, Dean, Bloomberg School of Public Health at the John Hopkins University in Baltimore, USA: 'Not only has Aravind…. made an enormous difference within Tamil Nadu, but (has) set the standard for the delivery of high quality, practical and cost-effective eye care for all of India and indeed for the entire world.'

Aravind's business model is a great success and is being widely studied, even by the Harvard Business School, but its founder, Venkataswamy, never set out to create a profitable enterprise. In fact, it's a trust, Govel Trust, that runs the hospitals and the extended family owns no shares in the hospitals. Rather, his idea was to help as many poor patients as possible with a goal of eradicating preventable blindness by 2013.

The first hospital was set up in Madurai, with 10 beds, and by the end of first year it had added another 20 beds and even earned a small profit. By 1978, Aravind had 100 beds, of which 70 were exclusively for the poor, non-paying patients.

Although it has Rs.175 crore in assets, the rooms in the hospital do not have beds, instead patients sleep on reed mats that too without air-conditioning. But, the equipment is state-of-the-art. Arvind Srinivasan, administrator of the Madurai hospital, who has an MBA from the University of Michigan, states that 'Villagers are used to *charpoys* and they are comfortable with their relatives around them, and they do not need a whole variety of food. But in terms of eye care, we make sure there is no compromise.'

Besides the hospitals, there's a centre for manufacturing intra-ocular lenses (at Rs. 150 a piece, the cheapest in the world), an eye bank, an institute for training, another one for research, even a college that offers a Master of Science course in ophthalmology.

Source: Venkataswamy (Dr.), G. (2004). 'Man of Vision', *Business Today*, 12th Anniversary Issue, Vol. 13, No.1, January 18, 2004, pp. 142-144.

TOOLS AND STRATEGIES FOR MEETING THE CSR CHALLENGE

Business organisations are making different types of endeavours to make a contribution to the overall cause of social responsibility. It is important to understand that CSR is easier said than done. There are big challenges for the corporate sector to surpass for making an effective contribution. Some of the initiatives adopted by the corporate sector to meet the CSR challenge are outlined as follows:

Corporate Governance

Corporate governance represents systems, processes, policies, laws and institutions that ensure the direction, control and accountability of a business organisation towards its different stakeholders.

O'Donovan[15] defines corporate governance as 'an internal system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity.

The report of SEBI Committee[16] on Corporate Governance (2003) defines corporate governance as the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company.

Good corporate governance is characterised by a firm commitment and adoption of ethical practices by an organisation across its entire value chain and in all its dealings with a wide group of stakeholders encompassing employees, customers, vendors, regulators and shareholders (including the minority shareholders). Some considerations in this respect are outlined below:

- Developing a code of conduct and a whistle blower policy and ensuring they are properly communicated and practised. (A whistle blower is an employee who exposes a fraud or an abuse by other employee(s) to an appropriate authority within or outside an organisation for a remedial action)
- Instituting independent directors through a rigorous, transparent and objective process.
- Focusing on the sustainability of business models.
- Greater transparency and disclosure of executive performance criteria on the basis of financial and non-financial measures.

Today, that is, the first decade of the 21st century, several issues relevant to corporate governance are: company law reforms, director's compensation, self-regulation, and the role of audit committees[17].

Need for Corporate Governance

In the past few years, corporate governance has gained increasing importance on account of high-profile collapses of many large US firms such as Enron Corporation and MCI Inc. (formerly WorldCom). It is also gaining acceptance in Indian context and the managements are beginning to realise the power of minority shareholders who can vote with their wallets. The more progressive companies are voluntarily accepting tougher accounting standards and more stringent disclosure norms than are mandated by law. They are also adopting more healthy governance practices. The need for effective corporate governance has arisen because of the following factors:

(a) Clause 49 of the Listing Agreement with stock exchanges provides the code of corporate governance prescribed by SEBI for listed Indian companies and makes it mandatory for such companies to follow it.

(b) Recent corporate scams in India have also put the spotlight on corporate governance practices adopted by Indian companies.

(c) Institutionalisation of the capital markets has tremendously enhanced their disciplining power.

(d) Globalisation of financial markets has exposed issuers, investors and intermediaries to the higher standards of disclosure and corporate governance that prevail in more developed capital markets.

(e) Due to financial sector reforms, more and more companies are relying on capital markets for their need for additional capital.

(f) Tax reforms, deregulation and competition have tilted the balance away from black money transactions. This makes misgovernance less attractive than they used to be in the past.

(g) Regulators are making an effort to enhance the scope, frequency, quality and reliability of the information that is disclosed.

(h) Increased number of regulatory measures are being framed and implemented to create an efficient capital market.

Some of the organisations are abiding by the corporate governance principles in letter and spirit. Wipro and Infosys are companies whose success can, in part, be attributed to their standards of governance. This phenomenon of the market rewarding the organisations that follow sound governance will gain more prevalence in the 21st century. Narayanamurthy, (2000), the founder CMD of Infosys, identified the following three constituents with respect to corporate governance[18]:

- **Shareholders**: Who trust the corporation enough to invest time, effort, and money in it.
- **Management**: That runs the company, and reports to the directors of the company.
- **Directors**: Who are responsible to shareholders.

The structural characteristics of the Indian corporate sector make the corporate governance problems in India very different from those of the developed world. The governance issue in the US or the UK is essentially that of disciplining the management. The problem in the Indian corporate sector is that of disciplining the dominant shareholder and protecting the minority shareholders. A board, which is accountable to the owners, would only be the one that is accountable to the dominant shareholder; this makes the governance problem difficult to solve. Therefore, the problem of corporate governance abuses by the dominant shareholder can be solved only by forces outside the company, that is, the regulator (the company law administration and the securities regulator) and the capital market[19].

Accreditations and Certifications

Accreditations and certifications from independent agencies can assure that the company policies and practices address a variety of concerns in the domain of prevention of pollution and compliance with relevant laws and regulations. In order to protect the environment, many organisations are going in for ISO 14001 certification.

Social Audit

The need to measure the degree of social responsiveness of business organisations led to the development of social audits. The social audit concept was first proposed by Howard R. Bowen[20] in the 1950s as a commitment to systematic assessment of and reporting on some meaningful, definable domain of the company's activities that have a social impact.' Louis E. Boone and David L. Kurtz[21] defined social audit as 'the efforts made within the firm to evaluate its own social responsiveness.'

Social audits enable management identify direct financial benefits as well as intangible benefits to the organisation from its socially responsible behaviour. Although social audits are not legally mandatory, many organisations do make social involvement disclosures in their annual reports.

Social audits can be broadly divided into two types:

(i) **Audits required by Government**: In India, at present, no such audits are required by the government. However, in countries like the USA, audits involving pollution control measures, product performance and equal employment standards have been imposed by the government.

(ii) **Voluntary social audits**: These are the social audits conducted by an organisation on a voluntary basis, when there are no regulations for mandatory social audits.

There is an increasing concern among major organisations of the world about their social responsibility. Firms such as General Motors and American Express have published social audits in the past. A survey of Fortune 500 firms showed that 456 companies (91.2 per cent) have made social responsibility disclosures in their annual reports. This trend is also visible in the Indian corporate sector.

The 2006 Sustainability Report of ITC, third in the series, is the first in India and among the top 10 in the world to be presented in accordance with the latest G3 guidelines of the Global Reporting Initiative[22].

Challenges in Conducting Social Audit

(i) Social audits are difficult to carry out as the methodologies and standards are gradually evolving.
(ii) Disagreements can arise over areas where social responsiveness needs to be implemented.
(iii) Results of CSR campaign can be somewhat intangible and/or difficult to measure. The assessments of the quality of social programmes are likely to vary.
(iv) Consensus is difficult on the methodology to measure the result of social benefit endeavours of an organisation.

Despite the problems in carrying out a social audit, the concept is gaining popularity and increasing number of companies are now assessing their social performance through social audits.

Trust Building Measures

Organisations can go for product recalls if they find that their products are either not as per the standards or they are likely to be harmful for society. For example, in 1982, there was a scare that some bottles of Tylenol, a product of Johnson & Johnson, contained cyanide. People stopped buying Tylenol. Johnson & Johnson lost lot of money, but they chose to lose even more money by announcing a major recall of their product. Simultaneously, they invested in new tamper-resistant seals.

Although Johnson & Johnson lost money in their endeavour to be socially responsible, they gained the trust of their customers in the long run. Now, when people look at other products of Johnson & Johnson, there is a sense of faith and trust that the company would not allow any of its products to harm people just to meet its bottom line.

Complete Product Life Cycle Management

Organisations can go for complete product life cycle management—from procurement of raw material, manufacturing, usage and finally disposal or recycling of the waste—so as to ensure that their products do not negatively affect the environment. This concern is particularly relevant to the electronic industry in India.

In the absence of specific law with respect to electronic waste management, around 50,000 to 70,000 tonnes of e-waste enters India every year from the West. India's e-waste generation is also rising at an alarming rate, with estimates for 2005 at 1.46 lakh tonnes, a figure expected to rise to 8 lakh tonnes by 2012[23].

Exhibit 3.5	Complete Product Life Cycle Management in Electronic Industry

With consumption of electronic devices growing rapidly, the quantum of obsolete electronics products is also increasing at an alarming rate. As a result, India generates 3.3 lakh tonnes of electronic waste every year.

Figures provided by three authorised recyclers in India suggest that only around nine per cent of end-of-life products are being recycled properly that is safe for the environment and health of the people. This leaves a whooping 91 per cent of e-waste at the mercy of the unorganised sector.

The missing 90 per cent e-waste can poses serious threat to the environment. Greenpeace says: 'Even in regions like the European Union with tough regulation, no precise information is available on what happens to as much as 75 per cent of e-waste generated. In the US, this figure could be as high as 80 per cent or even more'. The scrap yard workers in Asia are bearing the toxic burden of e-waste.

This toxic electronic waste, which is entering into different elements of environment in an uncontrolled manner, poses a serious danger to living organisms on this planet including the mankind.

Source: Sharma, V. (2009). 'IT majors not following e-waste take-back policy', The Tribune, February 22, 2009.

Clean Development Mechanism and Carbon Credits

As human activities are emitting greenhouse gasses (GHGs) in large amounts into the air, the earth's atmosphere is heating up rapidly, trapping more heat than it ever did. As a result, extreme weather conditions are becoming regular. If this trend remains unchecked for long, the accelerating greenhouse effect pores a serious threat to agriculture and economy.

In 1997, 15 industrialised countries signed the Kyoto Protocol to put brakes on global warming by committing to reduce their GHG emissions to 5.2 per cent, that is below 1990 levels, by 2012.

Collectively these countries accounted for 44 per cent of the world's emissions: 11 per cent short of the figure needed for the treaty to take effect. Russia had earlier refrained from signing the protocol but decided to enter the fold in 1999. Its share of global emissions of 17.5 per cent will generate sufficient support for the treaty to come into force. It may even encourage the next US administration to sign the treaty[24].

In view of the growing concern over GHG emissions, different companies are taking initiatives (obligatory as well as voluntary) to reduce their emission levels. For example, ITC has been 'carbon positive' since 2005. The Social and Farm Forestry Programme of ITC covers 65,000 hectares providing over 28 million person-days of employment to the disadvantaged. In the process, the company has also helped sequester over 2,000 kilotonnes of carbon dioxide as part of its commitment to combat climate change. It also wanted to attain a 'zero solid waste' discharge status. In 2006-07, it recycled over 90 per cent of solid waste that it produced during the year[25].

Main features of Clean Development Mechanism (CDM) The objective of clean development mechanism (CDM) is to help the organisations which cannot reduce their emission level. Using provisions of CDM, these organisations can invest in the projects that help in reduction of greenhouse gases and avail an equivalent amount of credit for the same. The key characteristics of CDM are:

(a) Emission reductions must exceed those that would occur in the business-as-usual situation.
(b) It should promote sustainable development.

CDM Certification Procedure The procedure for the implementation of CDM is as follows:

(a) Identification of a project for implementing CDM.

(b) Project formulation and submission to the Designated National Authority (DNA), that is National CDM Authority, for its approval.
(c) Securing national approval for voluntary participation and conformance with sustainable development criteria from National CDM Authority.
(d) Getting the Project Design Document (PDD) validated.
(e) Registering the project with CDM executive board.
(f) Implementation of the project and its corresponding measurements.
(g) Verification of the gains from the project.
(h) Issuance of Certified Emission Reductions (CERs) or carbon units by the international CDM certifying agency, that is, the United Nations Framework Convention on Climate Change (UNFCC). CERs are measured in terms of carbon emissions. One CER is equivalent to one metric tonne of carbon dioxide emission.
(i) Trading of carbon credits as CERs are tradable on designated exchanges.
(j) For a Kyoto-compliant carbon credit, the World Bank's Prototype Carbon Fund, a transaction agency, pays about $2 per tonne of carbon dioxide. However, it is introducing a new scheme to pay more for credits that demonstrate a high level of community benefit as well.

Benefits of CDM

(a) Indian businesses are eyeing clean development mechanism (CDM) projects because adoption of CDM generates an additional stream of income from the project in the form trading of carbon credits.
(b) India is in the forefront of developing countries pursuing the benefits of carbon trading opportunities. By the end of 1999, India had approved 30 CDM projects, and there were around 200 in the pipeline. The first CDM certification has been given to an Indian company, Gujarat Fluorochemicals Ltd. (GFL). Deepak Asher, VP (Corporate Finance), GFL says: 'The CDM project of the company involves reducing emissions of the refrigerant, HCFC22, and it is expected that the project will generate 30 millions CERs a year for the next 10 years[26].
(c) The Narod Enviro Projects Ltd., a cluster of 1,100 companies, on the outskirts of Ahmedabad is exploring the possibility of getting a combined CDM certification for the entire cluster.
(d) According to P. Ram Babu, India Leader, Climate Change Services, Pricewaterhouse Coopers, the maximum price paid till the beginning of the year 2000 for the carbon units in India was Euro 5 per unit. Few million tonnes have been traded so far.

Margaret Beckett, the former UK's Secretary of State for Environment, Food and Rural Affairs, stressing the need for continued economic and social development, said, 'We believe we can effectively tackle this challenge without large economic cost. Between 1990 and 2002, our emissions fell by 15 per cent while our GDP rose by 36 per cent.'

Green Reporting According to a study by the Institute for Environmental Management and the accounting firm KPMG, 35 per cent of the world's 250 largest corporations issue environmental reports. That represents a remarkable change from the situation prevailing a decade ago when it was hard to find any company providing detailed data on its environmental performance to the public[27].

For example, Bristol-Myers Squibb, the health and personal-care products giant has put a clearly structured report on environmental accounting on its corporate website. It contains summaries of its environmental policies and systems, a discussion of relevant stakeholder relationships, reviews of product and operations performance, overview of the environmental sustainability of its business, company's packaging guidelines, level of water use over time, etc. This information on the website is updated frequently to inform the audience about the latest developments on the company's green practices.

Since 1997, Royal Dutch/Shell, a leading petro-chemical company of the world has got all its environmental reports audited by external auditors for verification because stakeholders would not accept the company's own certification of its environmental record. The thoroughness of Royal Dutch/Shell's reporting process and the trustworthiness of its reports have made the company a leader in green reporting. Stakeholders, who were once critical of the company, now hail it as a trendsetter.

Benefits of Green Reporting Many business organisations have reaped significant business benefits from green reporting. This is providing an encouragement to other companies to voluntarily adopt green reporting as it makes a good business sense due to the following reason:

(a) Public reporting encourages and motivates the companies to be more disciplined about their environmental performance because the information has to be made public and/or uploaded on the company's website.

(b) It creates a positive public relations opportunity and generates goodwill for the organisation.

(c) It can act as a differentiator for the products of the organisation and can provide a competitive advantage.

(d) It can also help build a brand.

(e) It can help in attracting and retaining the talent in the times of war for talent because people like to work for socially responsible companies.

(f) It can make a company more attractive to customers and investors.

(g) As green reporting brings all business practices under scrutiny, it often helps managers to identify the cost saving opportunities by eliminating wastages in the production and distribution process.

(h) It helps in identifying new business opportunities. Earning and trading of carbon credits has created great new business possibilities for business organisations.

Going for green reporting is not as easy as it seems, for companies have to build their reporting processes from scratch without proven models to guide them. Many companies have struggled to get started. To help companies, the Global Reporting Initiative, sponsored by the Coalition for Environmentally Responsible Economies (CERSE), has published structured but flexible guidelines to bring some efficiency and consistency in the green reporting process.

EXAMPLE OF CSR ENDEAVOUR

Toyota Motor Europe (TME)

Toyota has always sought to infuse a strong sense of CSR across all its activities. By focusing on stakeholder's expectations and measuring its performance in CSR, Toyota tries to identify opportunities for sustainable growth in the medium and long term. To measure the effectiveness of its activities, Toyota introduced an enhanced, performance measuring tool, the CSR Assessment, in 2007.

TME publishes its Sustainability Report every year, which provides details about company's economic, environmental and social strategies and achievements for the previous fiscal year.

The TME Sustainability Report 2008 was released on October 7, 2008 at the World Conservation Congress in Barcelona, the world's largest environmental NGO event[28].

Toyota's response to the environmental challenge takes an integrated and holistic approach as it covers the complete life cycle of Toyota products. It is in-built into all company operations and processes. It intends to implement its agenda for Sustainable Development in the following three areas:

(a) **Sustainable Mobility**: To be achieved by designing and developing 'greener cars' like iQ or the Plug-in hybrid. To address bio-fuels issues, Toyota invited the Director General of the International Union for Nature Conservation (IUCN) to share views on bio-fuels.

(b) **Sustainable Plants**: All Toyota sites in Europe achieved their 2010 environmental targets by the year 2007 itself. Being ahead of schedule by many years, the company has set new targets.

(c) **Sustainable Retail**: TME has introduced this concept to help its dealers and retailers achieve industry leading environmental performance.

Companies need to ensure that CSR does not remain merely a window dressing or showcase, but should become a whole-hearted commitment to institute a holistic approach to make their entire operations (conducted by themselves or third parties) sustainable in the long run. In his recent work titled *Market for Virtue*, Prof David Vogel says: 'CSR is sustainable only if virtue pays off. The supply of corporate virtue is both made possible and constrained by the market… while there is a place in the business system for responsible firms, the "market for virtue" is not sufficiently important to make it in the interest of all firms to behave more responsibly[29]."

Points to Remember

1. The domain of corporate social responsibility includes all the actions and policies that a business needs to take to either protect or enhance the interest of society.
2. There are different approaches with respect to CSR, namely, Classical View, Social Obligation View, Socio-economic View, Social Responsibility View and Social Responsiveness View.
3. The need for CSR initiatives arises due to following reasons: moral responsibility of business as a part of society, need for clean environment, increasing threat from global warming and climate change, government regulation, consumer awareness and need to win the trust of customers, build positive public image and create employee satisfaction.
4. Business has responsibility towards following different interest groups in different stages: Owners, Investors/Creditors, Employees, Customers, Suppliers, Competitors, Government, Society.
5. There are different tools and strategies for meeting the CSR challenge, namely, Corporate Governance, Accreditations and Certifications, Social Audit, Complete Product Life Cycle Management, Trust Building Measures, Clean Development Mechanism, Carbon Credits and Green Reporting.

Review/Discussion Questions

1. What is corporate social responsibility?
2. What are the different constituents of corporate social responsibility?
3. What are the different approaches towards corporate social responsibility?
4. Describe different stages of evolution of the concept of social responsibility of business.
5. What is the need and importance of corporate social responsibility for a business entity?
6. What are the arguments for and against the social involvement of business?
7. What is the nature of responsibility of business organisations towards their different stakeholders?
8. What are the stages of evolution of the socially responsible role of business?
9. What are the tools and strategies that a business organisation can use for meeting the challenge of corporate social responsibility?
10. What is corporate governance? Why is there a need for it in the current business scenario?
11. What do you understand by Clean Development Mechanism (CDM) and the role of carbon credits in environment management?

Field Exercises/Class Exercises/Group Projects

1. Assign different leading business organisations to different groups of students. Ask them to study the different corporate social responsibility (CSR) activities undertaken by these organisations.
2. Undertake a consumer behaviour study to examine the impact of CSR initiatives on buying behaviour and brand building.
3. Specify some regions and list the CSR initiatives that can be undertaken in these regions. Which companies would be benefited by these CSR initiatives and how?
4. Examine the nature and content of trade in the domain of carbon credits in the present context. How is it likely to evolve in the near future? What makes you think so?
5. Visit the Internet and download the green reporting done by a few leading organisations on their website and discuss it in the class session.

On the Internet

1. Visit http://www.bsdglobal.com/issues/sr_csrm.asp to read Corporate Social Responsibility Monitor to understand the impact of CSR effort on the performance of organisations in the developed world.
2. Log on to http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=48809 to read ‘Overview of Corporate Social Responsibility’ for an in-depth understanding of Corporate Social Responsibility
3. Log on to http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=48977 to read ‘Business Principles’ to have a better understanding of fundamental business principles.
4. Read Milton Friedman, ‘The Social Responsibility of Business is to increase its Profits”, Sept 13, 1970, at http://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-respbusiness.html

5. Log on to http://www.businessweek.com/magazine/content/05_33/b3947115_mz017.htm to read an interview with Milton Friedman, 'Online Extra: Social Responsibility: 'Fundamentally Subversive'?, (Aug 15, 2005) to understand the different challenges with respect to CSR.
6. Read Ian Davis, 'The Biggest Contract', *The Economist* (also printed as '*What is the business of busines*' in the *McKinsey Quarterly*, 2005), at http://www.economist.com/business/displayStory.cfm?story_id=4008642 to understand the role of business in the domain of CSR.
7. Visit http://www.charleswarner.us/articles/EconomistTheGoodCompany.htm to read Clive Cook, 'The Good Company', *The Economist*, January 20, 2005, to know more about CSR.
8. Log on to http://sociology.ucdavis.edu/instructors/heroland/138/pdf/VIRTUE%20MATRIX.pdf#search=%22 virtue%20matrix%22 to read Roger L. Martin 'The Virtue Matrix: Calculating the Return on Corporate Responsibility', *Harvard Business Review*, March 2002, to know the financial side of CSR.
9. Read Global Reporting Guidelines by the Global Reporting Initiative, 2002. Part B: Reporting Principles (pp. 22–33) and Part C Report Content (pp. 34–59) at http://www.globalreporting.org/guidelines/2002/GRI_guidelines_print.pdf to understand how does a company put CSR into practice?
10. Visit 'CSR Reporting Still Not up to Scratch', *Foreign Direct Investment Magazine*, Feb 7, 2005, at http://www.fdimagazine.com/news/fullstory.php/aid/1103/CSR_reporting_still_not_up_to_scratch.html to understand challenges in measuring the impact of CSR activities.
11. Visit http://www.socialfunds.com/news/article.cgi/2054.html to read Bill Baue, 'Some Applaud Rise in Sustainability Reporting, Others Say it Masks Corporate Un-sustainability', July 11, 2006, to understand how is CSR measured and reported.
12. Log on to http://www.aworldconnected.org/article.php/524.html to read Randall Frost, 'Corporate Social Responsibility and Globalisation: A Reassessment' to have understanding of the impact of globalization on CSR.

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Case Study

CLINICAL TRIALS

An Opportunity or Threat for India?

The Union Ministry of Health has developed a new proposal for allowing testing of the drugs, discovered outside India, on Indian volunteers in the country.

Currently, 'first-in-human' or Phase-I trials (where a new drug is tested on human beings for the first time) are allowed in India only for the drugs discovered in India except for critical illnesses like HIV/AIDS or certain types of cancer. But, for drugs discovered outside India, only Phase-II and Phase-III trials are allowed after initial Phase-I studies on humans are completed abroad. The reason behind this precautionary approach is that the risk to human life is maximum during Phase I trials.

The new proposal intends to change this approach to a great extent. If implemented, the new proposal would open the gates for companies from all over the world to come to India to test their newly-discovered molecules on human beings after they have been tested on the animals. The rationale behind this proposal is to enable India to become a leading drug discovery and development destination. The companies performing and supervising these trials in hospitals for a fee are doing a business worth $300 million.

But the activist groups believe that lifting of restriction on first-in-human trials on drugs discovered anywhere in the globe could accelerate the exploitation of India's poor population to commercialise medicine meant for the rich. Their concern gains significance in the light of the fact that Phase-I trials are mostly performed on healthy volunteers in comparison to Phase II and III trials that are conducted on patients.

Phase-I trials are also distinct because they need to be conducted in specially equipped captive units with intensive care units to monitor the vital signs of the subject continuously. There has to be in place the capacity to take immediate care of the patient if things appear to go wrong. The staff to volunteer ratio for Phase-I trials has to be 2:1; it can even go up to 4:1. In addition to the number factor, quality and experience of these staffers is of great significance for conducting Phase-I trials.

The clinical trials in the Indian context have a history of exploitative relationship because of the practice of getting volunteers by giving them an incentive of free medicine or money, or both. In addition, there is an unproven record on the issue of compensation to volunteer subjects who are harmed by a trial. The probability of legal action against the law breaker is also very limited because of the nature of practices involved, lack of documentation, ignorance, poverty, illiteracy of the subject population and the elements of legal environment of India. All these constituents would give an encouragement to pharma companies all over the world to choose India as a trial destination. Phase-I trials offer an economic opportunity, but at the same time huge potential human cost is attached to it.

It is quite unlikely that the poor subjects, on whom these Phase-I tests would be conducted, would be in a position to use these drugs because of following reasons:

(a) Patented drugs are costly.
(b) Drug industry focuses more on developing medicine for the rich than the poor.

The drug industry and clinical research organisations, which conduct these trials for a fee, are strongly advocating for this proposal in the name of significant business opportunity and emergence of India as a hub for drug development.

The Indian pharma industry supports the draft proposal of the Union Health Ministry as it believes that this policy regulation would promote sharing of intellectual property rights, by joint development of drugs. They present an argument that Indian companies like Piramal Life Sciences, Ranbaxy, etc. who have an agreement with major pharma companies of the world, would significantly benefit from Phase-I trials at different levels of the pharmaceutical value chain, like drug discovery, manufacturing, co-developing, marketing, etc.

The Drug Controller General of India (DCGI) appears to be aware of the challenges that lie ahead on account of this legislation. It plans to launch an all-out bio-metric fingerprinting to track the health of Phase-I or bio equivalence trials. It also intends to enhance its staff strength almost three times to monitor the clinical trials. But how far the intent can match the action is yet to be seen, although the history is full of examples of mismatch.

Questions for Discussion and Analysis

1. Do you vote for or against the proposal on Phase-I trials?
2. Do the benefits for India out of this proposal justify the accompanying human cost?
3. Do you recommend that a country like India should become a living human lab to serve the economic interests of Indian and global pharma companies by offering the companies all over the world to conduct first-in-human stage clinical trials on Indian, populations?
4. What safety measures or concerns need to be incorporated or ensured before going ahead with this proposal?

Chapter 4

Managerial Ethics

The unexamined life is not worth living.

— Socrates

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand ethics and different approaches toward ethics
- comprehend managerial ethics and the factors affecting the need, importance and application of managerial ethics
- understand how to institutionalise ethics
- comprehend the difference in the nature of managerial ethics in India and the west
- examine the ethical questions faced by managers of MNCs in global context
- appraise the impact of corporate ethics and how should the organisations and managers respond to ethical issues in the global context

INTRODUCTION

Despite the enactment of stringent laws, corporate scandals such as Enron, WorldCom, etc., costing billions of dollars, have happened in a developed country like the USA. South Korea's famous Daewoo fraud a few years ago amounted to 82 billion US dollars. Last but not the least, the 2009 upheaval in the financial institutions of the USA, which was triggered by the sub-prime lending, was the result of gross-mismanagement and greed. Because of all these instances national and global economies lost trillions of dollars. These cases once again highlighted the criticality that is associated with corporate governance and business ethics.

In India, the issue of business ethics began to come under increasing purview of the legislature after the Harshad Mehta scam in the early nineties. But, the lessons were not learned properly and there happened the Ketan Parekh scam. Subsequently, the scam of Satyam computer services, involving thousands of crores on account of unethical practices adopted by the Satyam promoters, once again highlighted the vitality of the implementation of ethics in the domain of business.

All the scams, stated above, resulted in a considerable damage to the wealth of investors, employees, clients, and suppliers. They also tarnished the image of the concerned country and questioned the capability of the business sector to conduct its operations in an ethical manner. These scams are a solid proof that everything is not right with respect to the functioning of the corporate world. They raise many a question with respect to the functioning and nature of practices adopted by the corporate sector, and auditing and regulating agencies. Any unethical business practice would certainly not be sustainable in the long run. Those indulging in unethical business cannot live in peace as Ramalinga Raju of Satyam said, ‘It was like riding a tiger, not knowing how to get off without being eaten.’

The issue of ethics at the corporate and managerial levels is extremely critical. Considering the significant impact of business on different stakeholders, everyone in society—whether it is the government, regulator, customer or any other organisation—is concerned about the lack of ethical behaviour among certain business organisations.

ETHICS—DEFINITION

Ethics involve the fundamental definition of ‘what is good or bad, right or wrong’, and ‘what should be done and what must be avoided. According to Davis and Frederick[1], ethics refer to the rules and principles that define right and wrong conduct. In other words, ethics refer to the discipline that deals with defining what is good and what is bad, and what is moral duty and obligation. They serve as a parameter to judge whether a behaviour would benefit or harm human beings.

Ethics address questions such as how a right outcome can be achieved in a specific situation (applied ethics); how moral values, beliefs and principles should be determined (normative ethics); and, what morals, beliefs or principles, people actually abide by (descriptive ethics).

CLASSIFICATION OF ETHICS

Normative Ethics

The word ‘normative’ refers to the norms or guidelines and is often used interchangeably with the word ‘prescriptive’. In a sense, it signifies a search for an ideal behaviour for it to be termed as proper. Normative ethics attempt to answer moral questions concerning what people should do or believe. These help in arriving at moral standards that could regulate right and wrong conduct.

Normative ethics is an attempt to analyse what people should do, or whether their current behaviour is reasonable or not.

Traditionally, most fields of philosophy have incorporated normative ethics. Philosophers have critically investigated the nature and grounds of moral standards, moral principles, moral rules and moral conduct.

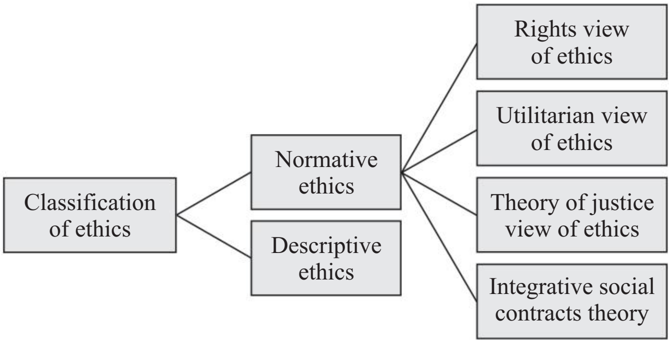

Figure 4.1 Classification of Ethics

The category of normative ethics also takes insights from the works of philosophers and theologians and applies them to specific types or categories of real-world situations. For example, bioethics is an important and growing aspect of applied ethics, which involves moral decisions on issues like organ transplant, genetic engineering and cloning. Business ethics is another such applied field.

Business ethics are concerned with truth and justice and have a variety of aspects such as the expectations of society, fair competition, advertising, public relations, social responsibility, consumer autonomy and corporate behaviour in the home country as well as abroad[2].

Four Schools of Thought of Normative Ethics

The discipline of ethics can be approached through different perspectives or predominant views about ethics. These views represent different philosophies to determine what actions or behaviours are ethical or unethical. The following four views have been developed with respect to normative ethics.

(i) ***Utilitarian View of Ethics:*** According to the utilitarian view of ethics, plans and actions of individuals as well as organisations should be evaluated in the light of their consequences. The utilitarian view terms those plans ethical, which deliver greatest overall good for a good number of people and least harm for the least number of people. The actions whose negative consequences are more than the benefits derived from them are termed unethical.

The utilitarian philosophy of ethics encourages efficiency and productivity because it justifies the actions that make an organisation productive and efficient. Thus, it is consistent with the goal of profit maximisation.

(ii) ***Rights View of Ethics:*** According to this approach, all individuals are entitled to enjoy some fundamental rights (natural as well as constitutional). This view of ethics is primarily concerned with respecting and protecting individual liberty, privileges, privacy and rights of conscience, free speech, life and safety.

Therefore, according to the rights view, the actions, which violate fundamental rights of individuals, are unethical, and the actions, which uphold and promote fundamental rights of individuals, are ethical.

(iii) ***Theory of Justice View of Ethics:*** According to the justice view of ethics, is all decisions should be taken by following rules and regulations, and the decisions so taken must be fair, impartial and based on the principle of equity. Therefore, the justice view defines ethical actions as the ones that lead to a fair distribution of benefits and costs among all stakeholders. The objective of this view is to find out whether rules and regulations are followed with an aim to protect the interests of under-represented stakeholders and the rights of employees.

(iv) ***Integrative Social Contracts Theory:*** This view on ethics suggests that ethical decisions should be taken on the basis of empirical ('what is') and normative ('what should be') factors. It implies that ethical decisions should be based on existing ethical norms in industries and communities in order to determine what constitutes right and wrong. This approach to ethics is based on the integration of the general social contract and the specific contract between community members.

Although most business people follow the utilitarian view[3] of ethics as it is consistent with business goals of efficiency, productivity and profits, yet non-utilitarian views are also gaining importance because of trend towards individual rights, social justice and community standards[4].

Descriptive Ethics

Descriptive ethics describe how people behave and/or what types of moral standards they claim to follow. The conclusions about the descriptive ethics of a given set of people are based on the research in the fields of anthropology, psychology, sociology and history.

Descriptive ethics help in understanding how a person actually makes moral choices in real or hypothetical situations. They also study the codes of conduct created by professional organisations to regulate the conduct of their members.

Descriptive ethics are sometimes referred to as comparative ethics because their study often involves comparing ethical systems: past ethics with present ones; the ethics of one society with another, and claims of ethical practices with actual rules of conduct.

MANAGERIAL ETHICS

Managerial ethics represent an ethical approach towards attaining corporate goals in an environment that involves other people. It is an enquiry into the nature and background of morality in an organisational setting. Managerial ethics involve examining the application of ethical dimensions to managerial decision-making. While making majority of decisions, a manager has to take into consideration who may be affected in terms of result as well as process[5].

Factors Affecting Application of Managerial Ethics

The realm of managerial ethics is extremely complex in the corporate world. It poses lot of challenges to a practising manager because he has to consider a large number of factors while making an ethical decision. These factors can be classified as organisational, individual and situational factors. It is the interplay of these three types of factors that determines whether the resulting behaviour would be ethical or unethical.

The three categories of factors that influence the implementation of business ethics by the employees of an organisation are discussed in the following sections.

Organisational Factors

Certain inherent factors are manifested in the organisational design and organisational culture. These factors significantly impact the application of managerial ethics. The impact of some organisational or structural elements on managerial ethics has been described in the following points.

- Empirical research has proved time and again that the behaviour of superiors is the strongest single influence on an individual's own choice to act ethically or unethically[6]. Ethical stances of the senior management encourage and support the subordinates to be ethical in their behaviour. This fact has been aptly demonstrated in the ethical practices adopted by Infosys and Wipro. The commitment of promoters and the top management towards ethics was instrumental in establishing a predominantly ethical work culture at all levels of these organisation.
- An organisation's culture has a significant impact on the display of ethical behaviour by its employees. The reason is: the employees generally act according to what they see and not according to what they hear from their superiors. If the employees actually see their organisation practising ethics in its various operations and they are convinced about the organisation's commitment to ethics, then their own behaviour with respect to ethical issues at the workplace is significantly affected in a positive way. Converse of the same is also equally true.
- Structural variables with respect to the organisational characteristics and mechanisms guide and influence individual ethics significantly. Structural designs that minimise ambiguity and uncertainty, ensure fairness and transparency, and continuously remind employees of ethical practices are more likely to foster ethical behaviour[7].
- Existence and implementation of instruments, like formal rules and regulations, properly documented and communicated Code of Ethics and detailed job description, can reduce ambiguity and encourage ethical behaviour. For instance, Sapient organisation has instituted Global Ethics hotline, which is accessible to all its employees. Federal Express has instituted a grievance filing procedure called the 'Guaranteed Fair Treatment Process'. Employees, who feel they have been treated unfairly, can challenge the decision through this process and they can keep on challenging it at progressively higher levels of management till they are satisfied. It is mandatory for FedEx managers to communicate this policy to all the employees working under them.
- Adoption of a Machiavellianism (ends justifying means) approach by an organisation, that lays considerable importance on the outcome and pays lesser attention on the process, can encourage employees to demonstrate unethical behaviour. When this result-orientation is coupled with unrealistic time pressure, it can lead to adoption of unethical practices. This very fact has been amply demonstrated in the Indian financial sector where a large number of employees of insurance and credit card companies befooled the potential customers to sell them financial products.
- Fair, transparent and objective performance appraisal systems encourage employees to be ethical in their behaviour.
- A reward system with a provision to reward employees on the basis of their performance can encourage ethical behaviour among the employees.

Individual Factors

These factors affect the managerial decision-making while applying managerial ethics to business situations. These are inherent to the personality of concerned individual(s). Some of these factors are briefly outlined in the following points.

1. ***Values:*** The values represent basic convictions that a specific mode of conduct (or end-state of existence) is personally or socially preferable to an opposite mode of conduct (or end-state of existence)[8]. These are the basic beliefs and assumptions about what is right or wrong to guide actions and judgments of an individual or organisation on a broad range of issues.

   A value-based approach to ethics–compliance management works best. This approach requires the sincere commitment of leadership at all levels, including ongoing attention, to key issues such as fair treatment of employees, rewards for ethical conduct, concern for external stakeholders, and consistency between words and actions[9].

   The nature of different values, possessed by different individuals working in an organisation, significantly influences the kind of ethical behaviour they are likely to display while dealing with ethical issues.

2. ***Level and Stage of Moral Development:*** The level of moral development of an individual, which is a measure of his/her independence from outside pressures, also influences the extent of his/her ethical behaviour in response to the actions of different constituents of society. More dependent is an individual on external forces and influences, more prone is he/she to behave according to the wishes of external sources.

   Different individuals possess varying degrees of independence with respect to their situation and external influences. Kohlberg[10] has identified three sequential levels of moral development, with each level comprising two stages. Kohlberg's three-stage model of moral development, depicted in Figure 4.2, is explained below.

Level one: Pre-conventional morality	Stage 1: Punishment-obedience orientation
	Stage 2: Instrumental relativist orientation
Level two: Conventional morality	Stage 3: Good boy-nice girl orientation
	Stage 4: Law and order orientation
Level three: Post-conventional morality	Stage 5: Social contract orientation
	Stage 6: Universal ethical principle orientation

Figure 4.2 Kohlberg's Model of Moral Development

(a) **Level I—Pre-conventional Level**: At this level of moral development an individual's decision for choosing between right or wrong is influenced by external factors like likely punishment, associated reward, potential gain, etc. An individual responds to cultural rules and norms of good or bad and right or wrong either to avoid punishment or to gain a reward. This level is further divided into the following stages:

- **Stage 1—The Punishment and Obedience Orientation:** At this stage, the goodness or badness of an action is determined on account of its consequences. So, what leads to punishment, whether it is morally right or wrong, is referred to as bad at this stage of moral development and is avoided.
- **Stage 2—The Instrumental Relativist Orientation:** At this stage of moral development, an action is deemed to be right if it satisfies one's own needs and occasionally the needs of others. Human relations too are viewed in market terms of gain or loss or give and take. Similarly, the values of fairness, reciprocity and sharing are interpreted in a pragmatic manner of 'you scratch my back and I'll scratch yours', at this stage.

(b) **Level II—Conventional Level**: At this level of moral development, an individual's behaviour is influenced by the expectations of family, group, organisation or nation and his/her desire to maintain the expected standards. Adherence to conventions and norms is considered to be valuable and important by an individual irrespective of its immediate and obvious consequences. The attitude is of loyalty to social order and identifying with the persons or group involved in it. This level consists of the following two stages:

- **Stage 3—The Interpersonal Concordance or 'Good Boy-Nice Girl' Orientation:** Upholding values or good behaviour at this stage is what pleases or helps others and is approved by them. Tendency is to conform to stereotypical images or opinions of majority or 'natural' behaviour. One earns the approval of others by being 'nice'.
- **Stage 4—The 'Law and Order' Orientation.** Right behaviour at this stage is defined in terms of doing one's duty, showing respect for authority and fixed rules, and maintenance of the given social order for one's own sake.

(c) **Level III—Post-Conventional or Principled Level**: At this level, an individual makes an effort to define the moral principles and live by them. He does so not because of any external pressure but because he believes in the validity and application of his moral principles. This level has the two following stages:

- **Stage 5—The Social Contract Legalistic Orientation:** At this level of moral development, rightness of an action is defined in terms of general individual rights and standards that have been critically examined and agreed upon by society. There is a clear awareness of the relativism of personal values and opinions, and emphasis is upon following procedural rules for reaching a consensus. Apart from what is constitutionally and democratically agreed upon, right action is a matter of personal values and opinions. The result is an emphasis on the 'legal point of view', but with an additional emphasis on the possibility of changing the law in terms of rational considerations of social utility.
- **Stage 6—The Universal Ethical Principle Orientation:** At this highest level of moral development, right is defined by the decision of conscience in accordance with self-chosen ethical principles that appeal to logical comprehensiveness, universality and consistency. These principles are abstract and ethical. They may not be concrete moral rules like the Ten Commandments, but at heart, these are universal principles

of justice, reciprocity and equality of human rights, and of respect for the dignity of human beings as individual persons.

A knowledgeable executive, who is conscious of his/her responsibility and less dependent on the external forces, is likely to display a more ethical role in the conduct of his/her affairs. Therefore, organisation should make an endeavour to enable the moral development of its employees. Thus, we can infer from Kohlberg's model that if managers at Level I are likely to display ethical/unethical behaviour on the basis of outcomes then managers at Level II would do the same because of expectations others have from them. The behaviour and decision-making of managers at Level III would be influenced by the principles they themselves choose to live by.

3. ***Formal Education and Cultural Elements:*** The education system and the culture in which one is brought up play a significant role in shaping up the ethical framework of an individual. Indian managers experience a clash between the values acquired from their formal education and professional training (based on the Anglo-Saxon model) and those drawn from the family, culture and society. Values drawn from training emphasise western instrumental rationality and rule following, whereas the values drawn from family and the community emphasise affiliation and social obligation. The source from which an individual predominantly derives his/her ethical stance determines the nature of his/her ethical behaviour.
4. ***Cross-Cultural Element:*** The liberalisation of the Indian economy has created opportunities for increased interaction between Indian managers and professionals from other parts of the globe. The ethical stances or definition of what is right or wrong for these professionals, from different parts of globe but working in the same organisation, are determined in accordance with the source of the ethical values and principles. What is right and acceptable in one culture may be unethical in the context of another culture. If the managers from different countries while working together, differ in their preferences and responses on ethical issues, there might be a friction or clash.

   Years ago, some foreign companies operating in South Africa broke the South African apartheid law that required segregated washrooms for employees on the basis of their colour and race[11]. If they had the same washroom for all employees, it was illegal, if they had segregated the washrooms for their employees, it would have been unethical according to the values upheld by the culture prevalent in their parent countries.
5. ***Personality Variables:*** Different variables of the personality of an individual influence his/her definition of ethics and their implementation. Some select personality variables that affect managerial ethics are described below.
   (a) Ego Strength: It is a measure of the strength of a person's convictions and beliefs with respect to issues, people and objects. This phenomenon affects managerial ethics in the following ways.
      - People with strong ego strength are more likely to follow their conviction and would be inclined to resist desires to act in an unethical manner. They would rather prefer to do what they believe is right.
      - Individuals with relatively lesser ego strength are likely to be more inconsistent in their moral judgement and action, whereas people with high ego strength would be more consistent with respect to their moral judgement and actions.

(b) **Locus of Control**: It refers to a personality attribute that measures the degree to which the people believe that they control their own life/fate/destiny. It has a considerable impact on the demonstration of an ethical behaviour by an individual. It is further classified as:

- **Internal locus:** Individuals with internal locus of control have a predominant belief that they themselves control their destiny. They hold themselves responsible for the majority of the outcomes that are result of the efforts put in by them. If they give the credit for success to themselves, then they also take on the blame for failure. They look within to find out the reasons for a certain outcome rather than outside, and hence are usually found saying, 'What needs to be done, and what all should I do to make this situation better'.

  Managers with internal locus of control are in a position to display significant consistent behaviour with respect to moral judgement and actions in comparison to people with external locus of control.
- **External locus:** This represents the predominant belief held by certain individuals that whatever happens to them is due to external factors, like environmental conditions, luck, chance, destiny, etc. These individuals look outside to find out the reason for their achievements and failures.

Situational Factor

The final factor that affects a manager's ethical behaviour is the intensity of ethical issue itself, which differs from situation to situation. If the ethical issue appears to be insignificant, then the manager might be unethical in his/her conduct, but when the ethical issue under question is quite significant then his/her conduct might be ethical.

The six characteristics that determine the intensity of an ethical issue are as following[12]:

(a) **Greatness of harm**: A manager is likely to be more ethical when the likelihood of potential harm is more.

(b) **Probability of harm**: Higher the probability of harm, higher would be the probability for display of ethical behaviour.

(c) **Consensus of wrong**: If more number of people believe something is wrong or unethical, the manager will have lesser tendency to be unethical.

(d) **Concentration of effect**: If the impact of harm is likely to be concentrated, then the manager would demonstrate willingness to be ethical rather than being unethical.

(e) **Immediacy of consequence**: If the harm is likely to be felt sooner, then the tendency of the manager would be to be ethical in his/her stance.

(f) **Proximity to victims**: Closer are the potential victims to the likely harm, higher would be the tendency to be ethical.

NEED AND IMPORTANCE OF BUSINESS ETHICS

A survey of *Fortune 1000* firms found that 98 per cent of the responding firms address ethics or conduct issues in formal documents. Of these firms, 78% have a separate code of ethics, and most distribute these policies widely within the organisation. Many employees also receive ethics training and have access to a telephone line for reporting problems or seeking advice[13].

This increased prevalence of formal importance to ethics clearly demonstrates the criticality of business ethics for a corporate entity in the present-day business scenario. This has happened because of the following reasons:

- ***Long-term Success:*** If an organisation wants to be successful in the long run, it must be built on a foundation of ethical principles. Unethical practices lead to the demise of the organisation sooner or later, as has been seen in the debacle of Satyam Computer Services.
- ***Demand of Stakeholders:*** It is essential for today's managers to be both socially responsible as well as ethical in letter and spirit because the organisation and its stakeholders consider the practice of managerial ethics an essential part of managerial responsibility.
- ***Extent of Impact of Business on Society:*** Both the size of business organisations and the dependence of society on them have increased considerably. In such a scenario, the display of unethical behaviour by business organisations can have a significant impact on different stakeholders of the business, including the society at large.
- ***Effective and Fair Decision-making:*** Being ethical in behaviour helps the manager to solve conflicts of interest and clashes of ideas in business in an optimum, fair and transparent manner without biases, prejudices, etc. This increases the credibility of a manager in the eyes of his/her superiors and subordinates and significantly contributes to the effectiveness of decision-making process and its outcome.
- ***Overall Impact on Organisational Culture and Output:*** The ethical position of a company has a considerable impact on establishing a quality culture in the organisation. It also conveys to different stakeholders about the importance of ethical behaviour while representing and acting on behalf of the company.
- ***Investigative Journalism:*** The media has become extremely proactive in bringing out unethical issues in the public domain for a corrective action by the government and regulating agencies. Therefore, it is important for the management of business organisations to voluntarily follow the ethical practices in order to avoid the negative press that can destroy their reputation and tarnish the image of the brand in the eyes of the key stakeholders.
- ***Increased Concern of a Well-informed Public:*** With spread of literacy, increased communication through electronic media and strengthening of consumer movement, the present-day consumer is significantly more aware than he used to be in the past. He is not only aware but has also become conscious of his rights. He wants business organisations to deliver what is due to him, failing which he can adopt different means to get justice. Therefore, it is in the interest of business organisations to be ethical in their dealings with the customer. This helps not only in retaining the satisfied customers but also in avoiding the generation of negative word of mouth.
- ***Regulatory Bodies:*** In India, business related laws have been tightened steadily, and empowered regulatory agencies are being set up to oversee their compliance. Some important regulatory bodies that act as watchdog for compliance with respect to ethical behaviour are: Securities and Exchange Board of India (SEBI), Telecom Regulatory Authority of India (TRAI), Insurance Regulatory and Development Authority (IRDA), etc.

SEBI has been instituted to curb the manipulation and unethical behaviour with respect to the operations of the securities market and share prices on different stock exchanges. It has put in place many regulations and guidelines for effective and efficient working of the financial and corporate sector.

- ***Code of Corporate Governance for Directors of Companies:*** This code has laid down various provisions with respect to how the members of the boards of different types of companies should be constituted and how they should discharge their duties and responsibility to preserve the interest of different stakeholders in the business. It makes substantive addition to their legal responsibilities for compliance with respect to provisions of law. Various provisions of this code ensure that the directors of the company drive the implementation of ethical behaviour measures by the company. Some provisions of the code are as follows:
  - Requirement of CEO/MD to sign exhaustive statement of compliance of statutory obligations in every board meeting and its ownership by all directors.
  - Increase in the number of independent directors and placement of higher responsibility on them.
  - Introduction of audit committee with an independent director as chairman for compulsory clearance of balance sheets to prevent management manipulation of accounts.
  - Greater responsibility on statutory auditors.

INSTITUTIONALISING ETHICS

One of the key responsibilities of the top management is to create an organisational environment that promotes ethical behaviour among its employees and stakeholders. This can be achieved by institutionalising the ethics in the organisation through regular application and reinforcement of ethical principles and values in its day-to-day operations.

The following practices need to be implemented by the top management in words and deeds to institutionalise the ethics in an organisation.

- ***Establishing Code of Ethics:*** The fundamental practice to institutionalise ethics within an organisation is to formulate an appropriate company policy on ethics, usually termed as Code of Ethics.

  A code of ethics is a statement of policies, principles, standards or rules that guide behaviour[14]. It is a formal document that states an organisation's primary values and ethical rules, which it wants its employees to follow.

  It can act as a guide to managers and employees in handling situations that involve an ethical dilemma in decision-making. For example, All India Management Association (AIMA), New Delhi, has formulated a code of conduct for professional managers.

  According to *The Sunday Observer*, GAP (a leading premium readymade garments brand) withdrew the garments supplied to it by an Indian outsourced manufacturer and ordered a probe. It was done on reports that an Indian sweatshop, connected with the withdrawn garments, was employing kids some as young as 10-year-old in a factory in Delhi in conditions close to slavery. This decision was taken in accordance with the ethical code that GAP imposed three years ago. *The Guardian* reported that the hand-stitched tops, which were to be sold for about $20 in Europe and the US by the premium retailers, were improperly subcontracted to a sweatshop using child labour. The workers in these sweatshops were being paid as little as 13 pence (Rs.10.50) per hour for a 48-hour week. This discovery of the children working in filthy conditions in Delhi renewed concerns about the outsourcing of garments production by large retail chains to India[15].

- ***Communicating Code of Ethics:*** Mere institution of a code of ethics is not enough. It is equally important to communicate it regularly in a proper manner to all the employees so as to reinforce its importance in their mind. All levels of management should continually reaffirm the importance of the ethics and the organisation's commitment to its code of ethics.

  To highlight the importance of the code, strict disciplinary action need to be taken on a consistent basis against the employees who violate the code. They should be publicly reprimanded so that others too learn a lesson about the importance of display of ethical behaviour in accordance with the code of ethics.

  Managers can take the following actions to communicate and reinforce ethics in their organisations:

  - Making it mandatory for all employees to sign the code of ethics.
  - Including ethics as a criterion in designing roles and responsibilities, defining goals and objectives, and designing the overall performance appraisal mechanisms.
  - Utilising every opportunity to encourage ethical behaviour and publicise it.
  - Encouraging employees to report unethical practices (commonly known as whistle blowing) as and when they observe something unethical in the organisation without fear or anxiety of being punished or harassed.

- ***Instituting Ethics Programme:*** If an organisation wants to base itself on a foundation of ethical principles, its leaders at all levels of management need to play an integral part in firmly establishing the formal ethics programme.

  A good ethics programme must be sustained to ensure that it is regularly adhered to and incorporated in decision-making at all levels in all aspects of business. The organisational climate conducive to the display of ethical behaviour by one and all can be established through the following measures:

  - **Leadership**: Commitment of the top management to ethics is the foremost requirement for institutionalising ethics.

    An organisational ethics programme starts at the top and must permeate the entire organisation. Navran[16] (1997) emphasizes, 'The bottom line is that ethics is a leadership issue. Leaders set the tone, shape the climate and define the standards'.

    The top-level managers have to act as role models for subordinate staff. A sound ethics programme will only be successful as long as leaders continue to communicate and update the standards.

  - **Instituting Ethics Committees:** Implementation of ethics can be ensured by formally appointing an ethics committee. This body can act as the custodian of ethical conduct by the organisation and its employees. Any violation of ethics can be brought to its notice for redressal and correction.

    To be effective this committee needs to be empowered. Only then it would be in a position to institute ethics in the organisation through its recommendations, verdicts and dictums on the issues that are brought before it for its consideration.

- **Training Programmes:** Ethics can be institutionalised by teaching them in Management Development Programmes (MDPs). The leading companies of the world lay great emphasis on training their manpower with respect to ethics and have instituted MDPs for teaching ethics.
- **Hiring**: Institutionalisation of ethics in an organisation can be ensured in the first place by hiring individuals with high ethical standards as its employees. Selection procedure should employ techniques that can identify and reject unethical candidates.
- **Social Audits**: By conducting social audits, an organisation can assess the degree to which its practices are ethical. This mechanism of measurement, assessment and review sends a clear signal to all the employees and other stakeholders that the organisation is serious about conducting its operations in an ethical manner and wants its employees to be ethical in their conduct.
- **Managerial Support**: The organisation needs to provide support for the individuals facing ethical dilemmas. This would give necessary confidence to the employees to take an ethical decision even against the odds. Managerial support becomes critical in the situations when an employee has to choose between the options of being unethical to generate business or remaining ethical even if it means loss of business or an opportunity.
- **Leading by Example:** To institutionalise ethics, managers at all levels must set a good example for their peers and subordinates through display of ethical behaviour and performance of socially responsible managerial practices. Managers can act as *good role model* by undertaking the following actions.
  * Demonstrating ethical and honest behaviour on a consistent basis.
  * Telling the truth without hiding or manipulating the information
  * Admitting failure and not trying to cover it up.
  * Communicating shared ethical values to employees through symbols, stories and slogans.
  * Rewarding employees who behave ethically and punish those who do not.
  * Protecting employees (whistle-blowers) who bring to light the unethical issues or raise ethical issues.
- **Raising Ethical Standards:** Organisations not only need to have ethical standards but they also need to review and upgrade them in tune with the changing expectations of society. Two factors that create a need to raise the ethical standards are given below. They are followed by government regulations and by education to raise the professionalism of business managers[17].
  (a) ***Public Disclosure:*** The Right to Information (RTI) Act has empowered consumers and other stakeholders of business in India. In the light of this development, it is appropriate for a business organisation to follow such practices, which if brought to the notice of other stakeholders, must do not tarnish the image of the organisation.
  (b) ***Publicity:*** The media has become extremely powerful and is increasingly acting as a watchdog of society. Because, of its increased reach, brands can be destroyed or

affected and sales can be significantly reduced with the publishing of any negative news about an organisation or its products and services.

Primark, the UK's second biggest clothing retailer, and Mothercare, the mother and baby shop, acted in response to a report published in *The Guardian* newspaper and launched an investigation into the pay and conditions of workers in Bangalore who supply to several top-notch UK and US brands[18].

MANAGERIAL ETHICS IN INDIA AND THE WEST

The value system in India and the one in the West may show different preferences in various ethical situations. If an Indian manager experiences a conflict between western business values and Indian social values, then different dynamics may emerge in response to the same situation.

The West is primarily a 'deal first' culture (based on the agreement that the two parties have with one another), whereas the East to which India belongs is a 'relation first' culture (where objectivity tends to get blended with emotions that a person holds). Indian managers regard family and social connections as important aspects of conventional ethical thinking.

Indian managers may choose to perform their role in accordance with Indian social values or they may choose to adopt the western instrumental rationality and rule following. As the Indian economy becomes more integrated with the western economy, it is anticipated that tensions between personal values/beliefs, advocated values and those required by the managers of the companies operating in a global context would increase.

ETHICAL DILEMMA FACED BY MANAGERS

An ethical dilemma is a situation that involves an apparent conflict between moral imperatives, that is, to obeying one moral imperative would result in contravening another. For instance, Media Net is an internal agency of Bennett Coleman Co. Ltd. (BCCL), publisher of the *Times of India* newspaper. Media Net negotiates promos as editorial placements for a fee. BCCL earlier launched TPT (Times Private Treaties) in 2006 as a separate division, which trades a stake in companies in return for providing advertising and branding. Bennett Coleman has now gone ahead to establish a new joint venture company, Tatva Public Relations, with Mumbai-based public relations firm Adfactors PR. This development has evoked protests from some quarters which see the promotion of a public relations agency by BCCL, the largest news and media company of India, as a conflict of interests[19]. Issues like this raise fears of compromise of ethics by both the business entities and their managers.

In the world of cut-throat competition, organisations and their managers, going all out to win customers, do face ethical dilemma on day-to-day basis. For example, a lot of people turned a blind eye to what Nicholas Leeson was doing at Barings Bank because he seemed to be bringing in profits. Such incidents can happen again because the incentives are the same, rewards are very great and that's a temptation for people (Frost, 1999)[20].

Managers are regularly confronted with the same question in their professional lives—whether they should avoid using unethical means, like corruption or bribery, while making an attempt to get business or not? Even within organisations, managers compete with one another for information, influence and resources. There are internal conflicts with respect to selecting ends as well as means. In this context, the question of what criteria should guide ethical behaviour becomes extremely important.

ETHICAL QUESTIONS FACED BY MANAGERS OF MNCS IN GLOBAL CONTEXT

What is ethical in one country may be unethical in the other country. In such situations which ethical or legal position should a business manager undertake? Exhibit 4.1 presents one aspect of varying ethical stands in different countries.

Exhibit 4.1 Which Ethics to Follow in the Global Context When Cost and Benefits are Huge

The SS United States, a luxurious ocean liner of the 1950s, was loaded with asbestos and would have cost about $100 million to be refurbished for luxury cruising, if the same was done in the West.

In 1992, it was taken to Turkey for removing the asbestos, where the cost of it was only $2 million. But, Turkish officials refused to allow the removal of asbestos because of the danger of cancer.

In October 1993, it was taken to Sebastopol, the Black Sea port where laws were relatively lax. Its more than one-half million square feet of carcinogenic asbestos was removed at Sebastopol for even less than $2 million, in the context where the safety standards could have been even lower.

As exposing workers to hazardous asbestos is unethical, a company has to decide whether to adopt host-country standards if there is no law stopping it from that. When the associated costs are too high, it is quite possible for some organisation to make ethical mistake and go ahead.

Source: M.J. Satchell, 'Deadly Trade in Toxics,' *U.S. News & World Report,* March 7, 1994, pp. 64

Some companies, recognising cultural differences, simply accept whatever prevails in the host country. But, this can expose the company (and its brand name) to evils like lowering of standards, corruption and public affairs disasters, if the same are prevalent or accepted in the host country. In such a scenario, the company can fail to have a set of common values that cement the morale and strategy of an organisation. Some companies prefer to export home-country values and ethical initiatives to the host country. This approach could also be a mistake as it is a kind of disrespect to other cultures.

To create and succeed with a clear, consistent overseas policy, a company must face home country-host country conflicts with respect to ethics. The important question with respect to international business ethics is that how a company should behave when the standards followed in the host country are lower than those followed in the home country[21]?

George Enderle[22] (1995) has identified four types of approaches that are followed by the MNCs while taking decisions on ethical issues in the global context. These approaches, described below, are similar to a posture historically taken by nation-states.

- ***Foreign Country Type:*** The company does not apply its own, home-country ethics and principles to host countries abroad. Instead, it prefers to operate its businesses according to local customs, assuming that what prevails as morality in the host country is an adequate guide for its business decision-making and practices in that country. For example, Swiss companies have historically adopted this approach in Nigeria.
- ***Empire Type:*** This approach resembles the practices adopted by Great Britain in India and its other colonies before 1947. The companies following this approach apply domestic values, concepts and theories to the host country without making any serious modifications and often do so regardless of the consequences.

- ***Interconnection Type:*** This approach is similar to states engaging in commercial relations in the form of trading blocks, like European Union, NAFTA, etc. Companies following this approach regard the international sphere as differing significantly from their domestic sphere. They believe that the interconnectedness of companies transcends national identities. In this model, the entire idea of national interest is blurred and companies don't see themselves as a medium of projecting or defending a national identity.
- ***Global Type:*** This approach, primarily dealing with ethics, does not take into account regional differences. From this point of view, citizens of all nations, whether they are corporate or individual citizens, must become more cosmopolitan and should be treated alike. The nation-state is gradually vanishing and, in turn, global citizenship is gradually emerging in the context of world shrinking into a global village.

How Should Organisations and Managers Respond to Ethical Issues in Global Context?

As business ethics vary from one country to another, the obvious question for a multinational manager is: 'What should I do?' Certainly there are no clear answers as to how should a manager respond to the issue of ethics in view of complexity and variability of international values. Different approaches advocate sharply differing advices to organisations and practising managers, which range from hopelessly callous to idealistically impractical (Donaldson, & Dunfee, 1999)[23]. Some of the approaches to deal with ethical issues in global context are cited as follows:

(a) Boddewyn and Brewer[24] (1994) have defended the view that managers should consider the host-country government on par with any other competitive factor. The government is seen merely as another factor of production or a set of 'agents' that international firms can use in the management of their chain of economic value-adding activities in cross-border activity.

Boddewyn[25] (1986) has argued that when companies seek competitive advantages, bribery, smuggling and buying absolute market monopolies are not necessarily ruled out.

(b) DeGeorge[26] (1993) has advocated that every company must "produce more good than harm for the host country." This claim seems to be rational, but it is enormously challenging to know with confidence whether a decision would do more good or more harm. It involves taking into consideration all things, like effects of pollution, wage labour effects, hypothetical alternatives (what would have happened if the MNC had not done business in the country), host-country government effects, and so on. Therefore, this approach at a minimum would require a separate moral 'accounting' process.

IMPACT OF CORPORATE ETHICS

It is difficult to measure the direct impact of display of ethical behaviour by a business entity on its overall performance. A Business Roundtable Report[27] (1988) titled 'Corporate Ethics: A Prime Business Asset' suggested that there are no precise ways to measure the end-result of widespread and intensive efforts to develop effective corporate ethics programmes. But, the following unethical practice is most likely to have a negative outcome in the long run.

Although different facets of business ethics are extremely important, yet there are different schools of thought with respect to their applicability and implementation in different business organisations. But, as consumers, the media, regulatory bodies and even the investors are showing an increased interest in this domain, it is vital for the corporate world to gradually introduce or strengthen their ethical practices and demonstrate a socially responsible behaviour. This would not only help the business community to increase its prestige in the eyes of society, but would also contribute in a big way to sustainable development.

Points to Remember

1. Ethics refer to rules and principles that define right and wrong conduct.
2. The practice of ethics can be classified as: normative ethics (defining what people should do or believe), descriptive ethics (describing how people behave and/or what types of moral standards they claim to follow).
3. Four views or schools of thought of normative ethics are: utilitarian view, rights view, theory of justice view, and integrative social contract theory.
4. Managerial ethics involve examining the application of ethical dimensions to managerial decision-making.
5. Organisational factors that influence the implementation of business ethics by employees are: behaviour of superiors, organisation culture, organisation structure design, existence and implementation of rules and regulations, code of ethics, detailed job description, time pressure, performance appraisal and rewards systems.
6. Individual factors that affect application of managerial ethics to business situations are: values, level and stage of moral development, formal education and cultural elements, personality variables (ego strength and internal or external locus of control).
7. Situational factors that affect a manager's ethical behaviour is the intensity of ethical issue, which is determined by greatness of harm, probability of harm, consensus of wrong, concentration of effect, immediacy of consequence and proximity to victims.
8. Business ethics have assumed importance because of these factors: need to ensure long-term success, demand of stakeholders, extent of impact of business on society, role in effective and fair decision-making, overall impact on organisational culture and output, investigative journalism, increased concern of a well-informed society, regulatory bodies and code of corporate governance.
9. To institutionalise ethics, the top management needs to establish and communicate code of ethics, institute ethics programme, show leadership commitment, institute ethics committees, organise training programmes, adopt suitable hiring, go for social audits, provide managerial support, lead by example, raise ethical standards, etc.
10. As per George Enderle the four approaches followed by the MNCs while deciding ethical issues in the global context are: foreign country type, empire type, interconnection type and global type.

Review/Discussion Questions

1. What are ethics?
2. What are the different approaches and classification of ethics?
3. What are managerial ethics? Discuss factors that affect application of managerial ethics.

4. What are different levels and stages of moral development?
5. What is the need and importance of business ethics?
6. How can an organisation institutionalise ethics?
7. What is the difference between the nature of managerial ethics in India and the West?
8. What ethical questions or dilemmas are faced by managers of MNCs in the global context?
9. What is the impact of corporate ethics? How should organisations and managers respond to ethical issues in the global context?

Field Exercises/Class Exercises/Group Projects

1. Students can have an informal discussion with five different managers to examine the possibility and application of business ethics in their day-to-day work. The observations can then form a part of class discussion.
2. Students can interview the regional or business heads of different organisations to examine what strategies have been implemented to institutionalise ethics in their organisation.

On the Internet

1. Visit http://www.scu.edu/ethics/publications/iie/v12n1/questions.html to learn about the response of entrepreneurs on the ethical issues and undertake some practical exercises with respect to business ethics.
2. Visit http://www.rogerdarlington.co.uk/Internetethics.html to learn more about Internet ethics.
3. Visit http://www.westinghousenuclear.com/docs/code_of_ethics.pdf to read of Business Ethics Code of Westinghouse Electric Company. Discuss in the class how ethical issues faced by companies in developed countries like America are different from those faced by the companies in developing country like India.
4. Visit http://www.ericsson.com/ericsson/corporate_responsibility/doc/code_business_ethics.pdf to learn how to develop a Code of Business Ethics.

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Case Study

Vikrant's Ethical Dilemma

Vikrant got a lifetime opportunity to establish a subsidiary company for his organisation in a developing country in Asia. He was chosen for this position as recognition to his illustrious career, association with company and strength of his character.

This assignment was conveyed to him by Mr. Parekh, the CEO of the company. Parekh described this project as the beginning of the company's global expansion. He emphatically mentioned that Vikrant has been purposely chosen to enable the company ensure that it could start its operations without too much delay.

After doing a small research about different parameters about the country on Internet, Vikrant concluded that although it was a good place to do business the corruption was rampant in the country. Vikrant landed in the country and decided to stay at the home of his college mate, Nijhawan for few days to understand the country better.

One evening Nijhawan introduced Vikrant to an individual who claimed to be a 'consultant' having very good linkages with legislators as well as bureaucrats. He was willing to do a great work for Vikrant for a substantial fee.

Later, Nijhawan apprised Vikrant that a lion's share of the consultancy fee is likely to go to politicians and bureaucrats as bribe. Vikrant told him that his company is very strong on ethics and does not indulge in such practices back home. Nijhawan promptly replied that such arrangements are normal in this country, otherwise his project could get delayed. The delay can spoil his reputation to start business on time as per the requirement of the company.

Nijhawan emphasised that nothing works efficiently in this country without bribe. However, Vikrant was reluctant to give bribe in view of his company's ethical policy. Nijhawan tried to convince Vikrant by saying that he was not bribing anybody but only hiring a consultant who is doing all that. Nijhawan reiterated that those who have rejected such help in the past have seen contracts and businesses go to their competitors, who have worked through such consultants.

Vikrant got confused and went for a walk thinking about what he should do. In the midst of this confusion, he thought of discussing the issue with the CEO? The moment he took out his cellphone to make a phone call, a thought came to his mind: what would his boss think about his character and competence to get the things done if he asks an opinion on this matter from him?

Questions for Discussion and Analysis

(a) Whether Vikrant should avail the services of the so-called consultant?

(b) How should business organisations deal with the problem of bribery that has become almost a norm and an expectation?

(c) How can managers successfully handle such disturbing gray zones that lie at the intersections of different cultures?

Section B

Management an Overview

Chapter 5

Management—A Conceptual Framework and Application

Management is efficiency in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall.

—Stephen R. Covey

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- comprehend the nature, scope, functions and different approaches to management
- understand who is a manager and what does managers do? What are the goals and challenges for managers
- comprehend the levels of managers and different managerial roles and management skills at different hierarchical levels
- understand the differences and commonalities between managers and leaders

INTRODUCTION

The practice of management is not prevalent among humans only, rather every living species practises management. The survival and existence of almost all species on the earth involves application of one or the other fundamental principle of management. Activities like living in groups, cooperative arrangement for feeding, protection measures against predator attacks, etc. are examples of the use of management by various living species. But human beings developed the art of management to a very high level, hence they became masters of this planet.

The practice of management among human beings would have begun with the coming together of two or more people to coordinate their individual efforts to do certain tasks which could not be performed optimally by individuals. With the progress of humans, their tasks became more complex thus requiring larger groups of people for performing them. This led to the task of management becoming more challenging as well as critical.

Generation after generation, human beings kept accumulating informally the nuggets of knowledge on undertaking complex tasks in an integrated manner. Eventually, this knowledge was documented thus giving birth to the discipline of management. Today, due to the flourishing of the highly goal-oriented work culture and the integration of national economies with the global economy, management has become an important human activity. The progress of both an individual and a nation depends on how better they manage their affairs.

DEFINITION OF MANAGEMENT

The word 'manage' is derived from the Italian word *maneggiare* which literally means 'to handle', especially a horse. The English word 'management' evolved from the French word *mesnagement* (later *ménagement*) in the 17th and 18th centuries.

The basic objective of management is handling people or a situation for achievement of certain goals. As a noun, the word 'management' refers to the person(s) who perform the act(s) of management. But, from a functional or implementation perspective, management is a process that involves planning, organising, resourcing, directing and controlling different activities for the accomplishment of desired goals. Management is also approached as a mechanism of creative problem solving. The creative problem solving is accomplished through four functions of management: planning, organising, leading and controlling (Higgins[1], 1994).

In the early twentieth century, Mary Parker Follett[2] defined management in simple words as 'the art of getting things done through people'. According to Koontz and Weihrich[3] (2008), 'Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims".

CHARACTERISTICS OF MANAGEMENT

The term 'management' conveys different meanings depending on the context in which it is used. Some of the connotations associated with management are explained below:

(a) ***An Integrative Process:*** As a process, management involves integration of different functions, techniques and practices through which a manager coordinates the activities of the other people. It refers to the sequential application of different managerial functions such as planning, organising, staffing, directing and controlling. Performing these roles as an integrated process ensures the transformation of resources into products and services to satisfy consumer needs and generate surplus for the organisation.

(b) ***A Goal-oriented Process:*** Management aims to achieve economic and social objectives by integrating all the activities in a single coordinated effort and a process. It directs group efforts towards achievement of pre-determined goals.

(c) ***An Intangible Factor of Production:*** Management is not an end in itself; but it is a means to achieve group objectives. Management is a vital and intangible factor of production that is present everywhere but not visible. It helps in transforming other factors of production, like land, labour and capital, into goods and services through coordination of different resources for the accomplishment of organisational goals.

(d) ***A System of Authority:*** Management is also a rule-making and rule-enforcing body of an organisation. The authority to make and implement rules is divided among different levels and positions of management. On the basis of concentration and dispersion of authority in an organisation, management can be classified as centralised or decentralised.

(e) ***A Discipline:*** Management is also referred to as a systematic and organised body of knowledge and a discipline with different specialisation streams for different functions, like financial management, human resource management, marketing management, etc.

(f) ***A Profession:*** Management is an applied and skill-based practice which is taken up as a profession by trained managers. This profession has its own sets of principles, conventions, codes of conduct, ethics, rules and procedures. It is a dynamic, never-ending function that has to be performed on a regular basis. As a function, it keeps on evolving over a period of time.

(g) ***A Group of People:*** Management also refers to a group of individuals who are responsible for getting things done through others. Thus, all individuals in an organisation, who exercise the managerial responsibility on people and resources make up management. In a company form of organisation, shareholders constitute a Board of Directors that appoints the management to carry out business operations.

MANAGEMENT LEVELS AND HIERARCHY

In small business organisations, the management team typically comprises the owner only. But, as the organisation grows in size, a suitable organisation structure is required. Generally, this structure of management is classified into the following three hierarchical levels:

1. Top Management
2. Middle Management
3. Frontline Management: Supervisors or Team-leaders

The extent to which a manager performs the managerial functions depends on the level he/she represents in the management hierarchy. The responsibilities of different levels of management are described below.

(a) ***Top Management:*** Top management leads the entire organisational effort through creation of vision and mission for the organisation, setting long- and medium-term goals, developing long-term strategy and leading middle-level managers to ensure attainment of the goals and objectives of the organisation. It normally comprises managers who are appointed by the Board of Directors. They are few in number and their designations include 'Managing Director', 'President', 'Chief Executive Officer','Executive Director', 'Vice-President', 'Director', etc.

To perform at top level, managers need to have good conceptual and design skills to plan, organise, monitor and lead the entire organisation towards realising its vision. The responsibilities of top management are as follows:

- Top management is responsible for strategic decisions and activities of the business that are of a long-term nature.
- They have to chalk out plans for the entire organisation and oversee the results that follow the implementation of plans.
- They are accountable for the impact of their business actions on other stakeholders.
- They have to be aware of external factors such as economy, markets, broad trends prevailing in society, etc.

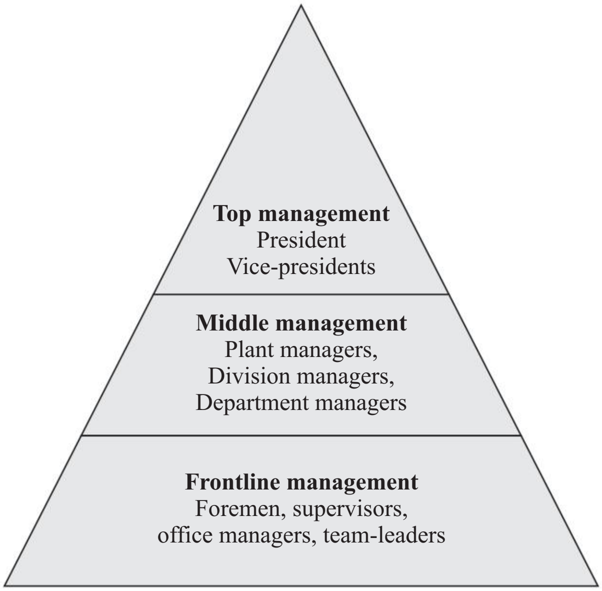

Figure 5.1 Managerial Hierarchy

(b) ***Middle Management:*** Middle management is directly responsible for the actual operations of various divisions or departments in an organisation. It acts as a communication bridge between top management and frontline managers. To perform this role effectively, middle-level managers need to have good human skills, which enable them to have fruitful interactions with subordinates and top management on a regular basis. Their job titles include 'Divisional Head', 'Unit Head', 'Head of Department', etc. The responsibilities of middle management are as follows:

- Middle-level managers ensure that the planning of top management gets optimally implemented throughout the organisation. They transform strategic plans into tactical and operational plans so that the strategic intent is implemented in an effective and efficient manner.
- They have specialised understanding of certain managerial tasks.
- They are responsible for communicating and coordinating with frontline management for the effective implementation of the decisions of top management.
- They also communicate the performance reports, feedback and business intelligence, gathered from the market and frontline management, to top management as an input for future decision-making.

To play their roles effectively, middle-level managers need to have an extraordinarily high level of emotional maturity. Japanese companies became global companies because their middle management was empowered to undertake assignments in product development and operations in collaboration with motivated and empowered frontline managers. But, in many Indian companies, middle-level managers are caught up in organisational politics and get so much involved in the controlling function that they have little time to play an effective role.

(c) ***Supervisory or Frontline Management:*** Supervisors or frontline managers are directly responsible for the performance of employees or workers involved in various operations. They implement the operational plans developed by middle-level managers and act as a link between the management and the workforce. Typical job titles of frontline managers are: 'Section-in-charge', 'Manager', 'Supervisor', 'Foreman', 'Section Engineer/Officer', etc.

Professor Keith Davis[4] highlighted the criticality of the role played by supervisors terming them as the keystone. According to him, if an organisation is an archways, then supervisor is its keystone (central topmost stone of an arch). The supervisor is the main connector joining the management and the employees. Without supervisor, organisation would collapse. The supervisor is an essential constituent of management. Like a keystone, he takes pressure from both sides (management and workforce) and also exerts his own pressure. This exchange of pressures strengthens the arch of management.

By interpreting policies, giving instructions and information to the employees, the supervisor serves as the management's point of contact with them. He ensures that workers know what is expected of them and how their work relates to the whole process. He exerts efforts towards attaining desired productivity and efficiency in the execution of assigned tasks by the employees. Thus, in this way, he makes a significant contribution to make the company successful. The responsibilities of frontline management are as follows:

- Frontline management ensures that the decisions and plans made by top and middle managements are implemented effectively.
- Its emphasis is on directing and controlling the work of employees in order to achieve the team goals. It manages operational costs to ensure that the operations remain economically viable.
- Frontline managers are the only level of management that manages non-managers. They have a direct supervision over the workforce in office, factory, sales field, etc.
- They measure and grade the performance of employees and present their productivity report to the middle management for managerial action.
- They provide technical guidance to the operators or employees to perform their role effectively and efficiently.
- They gather business intelligence and submit it to middle management.
- They deal with customers (internal or external) and resolve their issues and concerns, if any.
- They establish a balance between the conflicting demands of the employees and the customers, and those of top management and the workers or staff members.

FUNCTIONS OF MANAGEMENT

Managers are expected to perform certain functions so that they can get the things done through and with people in an effective and efficient manner. These managerial functions, which are goal directed, inter-related and interdependent, have been classified under different heads by different schools of thought.

Frenchman Henry Fayol[5], the father of modern management theory, was the first management thinker to identify five basic management functions which are: planning, organising, commanding, coordinating and controlling. Different thinkers over a period of time kept on adding or deleting managerial functions from this list in accordance with the modification in the managerial practice. The present widely-accepted integrated approach to management, given by Koontz and Weihrich[6], classifies managerial functions as: planning, organising, staffing, leading, coordinating and controlling. These functions of management have been briefly outlined in this section and discussed at length in subsequent chapters.

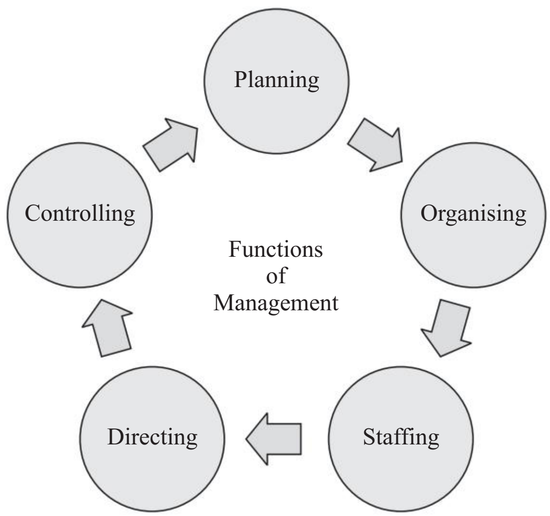

Figure 5.2 Functions of Management

- ***Planning:*** Planning is the process of selecting mission, goals and objectives of an activity or an organisation and determining a systematic process and actions for their accomplishment. All levels of management engage in planning, but the extent of time they invest in planning activities vary from one level to another.

  The formal planning process consists of a systematic, logical and orderly series of steps to prepare an organisation for the future by determining its goals and objectives, and the means to achieve them. It requires decision-making as it involves choosing a particular future course(s) of action from different alternatives. The decision is the threshold point that transforms the planning process into a plan.
- ***Organising:*** Organising is the process of establishing an organisational structure; assigning roles, responsibilities and tasks to different positions; and establishing hierarchical, reporting and authority relationships between them to implement plans and accomplish goals in a coordinated manner.

The focus of organising is on determination of organisational design; assigning of tasks to different divisions, departments and individuals; determination of the level of authority to successfully execute the assigned tasks; assigning responsibilities; and determining the pattern of flow of information within the organisation so that planning can be implemented with optimum productivity.

- ***Staffing:*** Staffing covers different activities aimed at filling and keeping filled the various positions in the organisation structure with people of appropriate competency. This function is also known as 'human resource management'.

  Staffing includes activities such as job analysis, determining manpower requirement, assessing the inventory of people/skills already available, recruitment, selection, hiring, induction, placement, training, development, compensation, performance appraisal, transfer, promotion and career planning of both new candidates and current employees so that tasks are accomplished effectively and efficiently.

- ***Directing:*** Directing is the process of influencing people's behaviour for achievement of organisational goals through creation of an effective organisational climate, provision of proper leadership, motivation, guidance, communication, group dynamics, conflict management coordination and overseeing of employees and activities to get the best out of the employees. Newman and Warren[7] (1985) have defined directing as the steps a manager takes to get subordinates and others to carry out plans.

  Directing involves achievement of organisational goals by aligning them with the individual goals of employees. As this function is predominantly concerned with the interpersonal aspect of managing, some experts prefer to term it as 'leading'.

  Effective managers have to act as competent team leaders to transform different groups of people into highly coherent and well-integrated teams that are focused on the common goal. In this task, directing or leading plays a major role to motivate them by identifying the potential of individuals in a group and channelising their energy and behaviour to willingly play an effective role in achieving organisational objectives. Simultaneously, directing helps employees to accomplish their personal objectives.

  It has been observed that subordinates gradually start behaving or performing according to the good or bad treatment meted out to them by their managers. A good treatment mostly results in a superior performance by subordinates. The reverse happen when subordinates are treated by their managers. George Bernard Shaw's play *Pygmalion*[8] explored the notion that the way one person treats another, for better or worse, can have a transforming effect on the latter. In the play, Elize Doolittle explains: 'The difference between a lady and a flower girl is not how she behaves but how she's treated. I shall always be a flower girl to Professor Higgins because he always will; but I know I can be a lady to you because you always treat me as a lady and always will.'

- ***Controlling:*** Controlling is a managerial process that ensures conformity of performance with pre-established standards by measuring individual and organisational performance, comparing it with the standards and correcting any significant deviation. Since managers are ultimately held accountable for the performance of their subordinates, they need to regularly monitor and analyse the output of their subordinates and provide timely feedback to ensure that group goals are accomplished as per plans.

Although planning must precede controlling, yet plans are not self-achieving. Plans only guide managers in the use of resources for the accomplishment of specific goals. The performance of activities needs to be regularly monitored and checked to determine whether they conform to plans or not.

If a manager aspires for successful accomplishment of the assigned task, he has to perform all the above mentioned functions in an appropriate and integrated manner. Failure in any one of them can derail the entire managerial effort and negatively affect the accomplishment of goals and objectives.

MANAGERIAL ROLES

In order to perform different managerial functions and achieve organisational goals, managers need to perform multiple roles. Henry Mintzberg[9] of McGill University conducted a research study to determine what managers actually do? On the basis of the systematic observation of five CEOs in different organisations, he identified ten roles that are common to all managers. Although these ten managerial roles are described individually, yet they form an integrated whole as they are interrelated. These ten role, as shown in Figure 5.1, are further classified in three broad groups: interpersonal roles, informational roles and decisional roles. These three types of roles are described as follows.

Interpersonal roles	• Figurehead role • Liaison role • Leadership role
Informational roles	• Monitor role • Disseminator role • Spokesperson role
Decisional roles	• Entrepreneurial Role • Disturbance-handler role • Resource allocator role • Negotiator role

Figure 5.3 The Managerial Roles

1. Interpersonal Roles

Managers direct and supervise employees on a day-to-day basis. They also interact with different stakeholders of the business environment outside the organisation. Because of the intensive interaction of managers with people inside and outside the organisation, their interpersonal role becomes extremely critical. The interpersonal role of a manager requires him/her to act as a leader, figurehead and liaison officer. These three interpersonal roles are described as follows:

(a) ***Figurehead Role:*** Managers represent their organisation to different stakeholders. Top management represents the company legally and socially to different stakeholders outside the organisation while middle management represents the viewpoint of their division, plant or department.

The figurehead role is usually played by managers whose position is higher than middle-level managers. These managers may communicate current organisation programmes or performance, future organisational plans or ethical practices adopted by the organisation to different constituents of the business environment at different forums and platforms.

(b) ***Liaison Role:*** Managers need to interact with peers and individuals both inside and outside the organisation to gain favours and information and to maintain the routine flow of work for the accomplishment of organisational goals.

In the role of liaison officer, a manager coordinates the work of others in different work units and establishes alliances with others to share resources. This role is particularly critical for middle-level managers, who often compete with other managers for important and limited resources. At the same time, they must maintain successful working relationships with other managers.

(c) ***Leadership Role:*** This role enables a manager to influence the behaviour of others for the accomplishment of group goals. As a leader, manager acts as an example or role model for other employees to follow, gives commands and directions to subordinates, makes decisions, and mobilises employee support. The leadership role should not be limited to the top management alone; managers at all levels of the organisation should demonstrate some leadership quality.

Table 5.1 Interpersonal Roles of a Manager

Nature of Role	Description of Actions	Examples of Corresponding Roles
Figurehead	Symbolic leader of the organisation, Performs duties of social and legal character	Attending ceremonies, hosting events, representing the organisation at public forums
Leader	Motivating subordinates, Influencing their attitude and behaviour	Subordinates have to be led for a motivated performance most of the time.
Liaison	Establishing a network of contacts within and outside the organisation	Attending events and meetings, taking care of business correspondence, etc.

2. Informational Role

The informational role requires managers to obtain and transmit information. The performance of this role ensures that the required information is provided by the manager to all concerned so that different tasks are coordinated for accomplishing common goals. While receiving and transmitting information, managers perform the following roles.

(a) ***Monitor Role:*** In a monitor's role, the manager receives and collects information to examine whether the performance of desired tasks is as per the predetermined standards. If the performance is not satisfactory, he/she takes a corrective action to improve it. As a monitor, the manager also keeps an eye on different changes in the environment within and outside the company, which may affect individual and organisational performance.

Monitoring occurs at all levels of management. Managers at higher levels of organisation are more likely to monitor threats from the external environment and middle or firstline managers are more focused on the internal environment.

(b) ***Disseminator Role:*** The manager is also expected to transmit the required information to different constituents within the organisation. A top-level manager receives and transmits more information from people outside the organisation than the supervisor.

The role of a disseminator requires a manager to disseminate the company's vision and purpose and information about different elements of the business environment within organisation. He also informs employees and other stakeholders the business of about the changes that are going to affect them and the organisation.

(c) ***Spokesperson Role:*** In the role of spokesperson, managers disseminate the organisation's information to its external environment. In this role top-level managers express their views as industry experts, whereas supervisors communicate as unit or departmental experts.

Table 5.2 Informational Roles of a Manager

Nature of Role	Description of Actions	Examples of Corresponding Roles
Monitor (receiver)	Collecting various data and information relevant to the organisation and to the performance of assigned tasks.	Analysing incoming correspondence, attending seminars and exhibitions, going through periodic surveys
Disseminator (distributor)	Transmitting information obtained from external and internal sources to appropriate people within the organisation	Informing employees about the agreements reached, and the new practices to be implemented
Spokesperson	Transmitting information to outsiders about the organisation's current situation, achievements and future plans	Presenting progress reports at meetings and giving presentations

3. Decisional Roles

Managers are required to make different forms and levels of decisions on the basis of their hierarchical position and the assigned responsibility. An individual cannot be expected to perform the role as a manager without being competent to make decisions. The decisional roles require managers to plan strategy and utilisation of resources for achievement of organisational goals in an efficient and effective manner. The four decisional roles performed by managers are described below.

(a) ***Entrepreneurial Role:*** In the entrepreneurial role, managers, like an entrepreneur, initiate change and take decisions to align the business with the ever-changing business environment. The entrepreneurial role requires a manager to assign resources to develop innovative goods and services, or to expand business. This role is generally held by top-level managers although middle managers may be given some power to make such decisions. Organisations are making an attempt to institute a culture where managers at all levels develop a sense of ownership and perform their role with entrepreneurial spirit (intrapreneurs).

(b) ***Disturbance-handler Role:*** As a disturbance handler, managers deal with the problems facing the organisation—conflicts from within the organisation and threats from the external environment. Managers at all levels perform this role. For example, frontline managers may correct a problem affecting the assembly line or a middle-level manager may attempt to address the issue of worker's strike in a unit or division. Top-level managers handle the problems that are associated with the external environment.

(c) ***Resource Allocator Role:*** As a resource allocator, a manager has to take decisions on where the organisation needs to expend its limited resources and efforts in order to get the optimum return on its investment.

(d) ***Negotiator Role:*** Managers negotiate with outside parties as well as within the organisation by acting as a mediator. The top-level manager negotiates for the entire organisation while the supervisor negotiates about his/her work unit in order to make the best possible contribution.

Table 5.3 Decisional Roles of a Manager

Nature of Role	Description of Actions	Examples of Corresponding Roles
Entrepreneur	Initiating the implementation of innovations, developing new processes for the organisation	Participation in meetings on development and implementation of innovations
Disturbance Handler	Setting things in order when organisational operations are threatened by internal or external forces	Discussing and making decisions to overcome crisis situations
Resource Allocator	Deciding on allocation of the organisation's physical, financial and human resources	Developing and approving plans, schedules, estimates and budgets.
Negotiator	Representing the organisation in important negotiations with different stakeholders	Conducting negotiations, establishing deals with individuals and other companies.

The empirical testing of managerial roles has revealed that managers perform these roles but the emphasis placed by them on different roles varies with the organisational level[10]. The supervisors also perform managerial roles but their emphasis differs from that of the top-level managers. For a supervisor, the figurehead role is not of much significance. But the disturbance handler and negotiator roles have increased importance for the supervisor.

MANAGEMENT AS SCIENCE OR ART

In order to understand whether management is a science or an art, it is important to first understand what constitutes science and what can be termed as art. Science is a systematic body of knowledge that is developed through observation and experimentation, and can be verified. Scientific principles establish a cause and effect relationship between various factors. Mere knowledge or collection of facts does not qualify as science. It is only when the gathered knowledge is verified in different geographies and over a period of time, it becomes science. Art is a systematic application of a skill or knowledge for the accomplishment of results. It represents the methods or ways of doing specific things to effect change and accomplish results through deliberate efforts.

The basic difference between science and art is that science is concerned with knowing 'why' and art deals with the 'how' of application. Given below is a systematic presentation on why management is both science as well as art.

Management as an Art

The following features and characteristics of management present it an art:

1. ***Personal Skill:*** Management is an art as a manager has to use his personal skill, knowledge and ingenuity in solving many complicated problems on day-to-day basis.

2. ***Practical Knowledge:*** Management does not merely mean the systematic documentation of principles, but it is the application of these principles that makes it effective and useful.
3. ***Results-oriented:*** Management is concerned with the accomplishment of objectives and has a result-oriented approach. It has to ensure that the set standards are attained by directing people towards the accomplishment of desired results.
4. ***Creativity:*** Every art has an element of creativity. Management is one of the most creative arts as it is concerned with getting the work done through others by motivating them and coordinating their efforts in an innovative manner.
5. ***Regular Practice:*** Like an artist, a manager also makes an attempt to attain higher and higher goals and perform things in an even better manner. This efficiency and effectiveness is attained through regular practice.

Management as a Science

The following features of management present it as a science.

1. ***Systematic Body of Knowledge:*** Management is an organised body of knowledge built up by management practitioners, thinkers and philosophers by conducting extensive empirical research and verification of the same over the years.
2. ***Cause and Effect Relationship:*** Many principles of management establish a cause and effect relationship. These principles have been verified through empirical research.
3. ***Continuous Observation:*** The principles of management have been developed on the basis of continued observations by many theorists and practitioners over a period of years.
4. ***Validity and Predictability:*** The principles of management have been repeatedly tested through practical research to verify their validity, reliability and replicability.

Management Principles vs Science Principles

The results expected from the application of management principles may not be that certain as they are in the case of science. As engineers apply the principles of physics in the design of an instrument, managers also apply management theories to people and work. But, managers need to blend management principles with realities.

For example, the management principle of 'unity of command' states that if an individual reports to a single superior, it is more likely that the individual will feel a sense of loyalty and obligation to the superior, and there is less likelihood of confusion in instructions. However, it does not imply that individuals must never report to more than one person. It only implies that if they do so, their managers must be aware of the possible risks, which should be taken into account in balancing advantages/disadvantages of multiple commands.

Thus, we can conclude that management is both art and science. As an art, it demands certain skills form its practitioner; as a science, it provides its practitioner with a systematic body of knowledge comprising certain principles, laws, generalisations, etc. that have been tested and verified. But, it must be admitted that management is not an absolute science; at best, it can be termed as a crude science because its application varies from person to person and from one situation to another.

UNIVERSAL APPLICABILITY OF MANAGEMENT

There exists a school of thought which believes that management is generic. Hence, management principles are general rather than specific to a type of organisation or a geographical territory. For example, Fayol's 14 principles of management[11] can be applied to every managerial situation. This assumption is based on the fact that wherever there is a human activity, there is management. Be it commerce or politics or religion or war, etc. in every sphere there is a management function to be performed.

But, there is another school of thought which believes the application of management principles varies from one socio-cultural background to another. For example, Gopalakrishnan[12] stressed that as India became independent after 200 years of British rule, its educational and administrative systems have strong Anglo-Saxon influence. Therefore, Indian leader-managers tend to be less Asian than their Far Eastern counterparts and perform well in countries, like the UK and the USA. Americans see the Far Eastern manager as polite, sensitive and team-oriented, whereas the Indian leader-manager is seen as direct, aggressive and individualistic.

If the Dutch and Anglo-Saxons have a direct approach to problems, which might be termed as linear, then the French would discuss all aspects surrounding an issue rather than the issue itself. This might be because of their educational system which teaches one to look for the context surrounding a situation. That is why the French tend to be creative. The Arab approach to complex problems is unique. If A and B have to discuss a deal in an Anglo-Saxon culture, they would discuss until they agree or they would break off. In the Arab situation, it would be common to have the discussion via C[13].

Harold Koontz[14], in his model of comparative management, concluded that management as science (organised knowledge) has universal application, but the practice of management is an art and as such must be adapted to the situation. Thus, we can conclude that management is universal only if the manager has become familiar with the specific situation in which it has to be applied. Managers need to be familiar with production technology, customer characteristics and the culture of the industry with respect to a society to be effective in applying their generic management skills to that society. Thus, management principles are universal but the manner in which they are practised by managers vary across countries, regions and organisations.

SCOPE OF MANAGEMENT

The scope defines the boundaries and the realm of a discipline. The scope of management comprises the following activities.

(a) ***Intellectual Activities of Management:*** As management involves getting things done through and with others, so most of managerial activities are intellectual activities. These intellectual activities enable the manager to accomplish his/her goals and objectives in an effective and efficient manner. Some of these activities are: planning, organising, directing, coordinating, reporting, budgeting and controlling.

(b) ***Effective and Efficient Utilisation of Resources:*** Attainment of productivity in the operations aimed at generating surplus is the key element of management. In other words, management represents an approach that is focused on transformation of inputs into desired outputs in an efficient manner.

(c) ***Functional Activities of Management:*** The domain of management is classified into a number of specialised functions. Some of the select and leading functions of management are: Financial Management, Marketing, Sales and Distribution Management, Human Resource Management, Production Management, R&D Management, Purchase Management, Supply Chain Management, Office Management, etc.

(d) ***Creativity and Innovation:*** The key responsibility of the management is to look for innovative solutions to the issues or concerns at hand. Management has to adequately balance the need for stability with the desired level of change for regularly aligning the organisation with the changing business environment.

(e) ***Beyond Business Administration:*** Management has been mistakenly equated only with the domain of 'business administration'. This wrong perception has proved detrimental for the discipline of management as it has led to the exclusion of trained management professionals from organisations that do not fall under the purview of conventional trade and commerce. Even the institutes, which impart management education, are being increasingly termed as B-Schools.

In reality every organisation, whether involved in trade and commerce or not, must manage its work, people, processes, technology, etc. in a manner that facilitates the achievement of its intended goals with optimum productivity. Every form of organization—for-profit, non-profit, a country, a state, etc.—wants to ensure that its expenditure should not be more than its revenue. The objective of the people at the helm in an organisation should be to justify the existence of the organisation and enjoy the faith of investors or donors. Therefore, all organisations strive to manage their activities in such a manner that helps them generate a surplus for their long-term survival.

In reality, the scope of management goes much beyond the world of trade and commerce. The fundamentals of management, that have been developed after considerable empirical research, need to be employed by all forms of organisations. Similarly, the professionally trained managers need to be considered for employment in all forms of organisations, like universities, hospitals, police, NGOs, commercial organisations, etc. to manage their resources in an efficient and effective manner. If possible, these organisations should strive to generate surplus so as to sustain themselves or justify their respectful existence over a period of time.

Different Approaches to Management

Management means different things to different people. No single approach of management is universally accepted. Over the years, theorists and academic authors have contributed to the evolution of the discipline of management. They approached the discipline of management from different perspectives, leading to the emergence of different schools of thought of management. Different schools or philosophies of management remained dominant at different times. Some of them were so distinctive that they were termed as unique approaches. Harold Koontz[15] has described the phenomenon of emergence of a large number management approached as 'The Management Theory Jungle'. These approaches have been explained in detail in Chapter 6: Evolution of Management Thought.

The existence of many distinct approaches of management has created a confusion in the minds of practitioners about their effectiveness in different situations. To overcome this confusion, a practising manager has to analyse a given situation and decide that which role, skill or approach would enable him/

her to respond to that situation in an optimum manner. Given below is a brief description of the role of a manager.

Manager

A manager is an individual responsible for planning and directing the work of one or more groups of individuals, monitoring their performance and taking corrective action when necessary for the accomplishment of organisational goals and objectives. To get things done, a manager need not be the best in any or all the areas that he/she is responsible for. But he/she should be familiar with the work of all members of the group that he/she supervises. The manager should know how to manage his/her team rather than to know how to do their work well.

Essentially, the role of a manager is to create and maintain an internal environment that enables individuals transform their potential into performance for the achievement of organisational goals. To create the required internal environment, the manager uses resources, like people, technology, facilities and equipment, materials and supplies, information and money. Also, the manager has to constantly scan and comprehend different dimensions of the highly dynamic external environment of business, which affects the organisation's area of operations. Managers are expected to anticipate challenges and plan or modify their strategies well in time to meet the future challenges.

With a good number of organisations operating in many countries, their managers have to understand not only the environments of the host countries but also their linkage with each other and with the global economy. Thus, managers are expected to regularly update themselves with the latest technological developments, socio-cultural elements, political trends and day-to-day happenings that can have an impact on their business(es).

Broadly, a manager's job involves planning for the future by anticipating changes in the external environment; organising people into groups, allocating resources to them and then motivating them to give their best to attain organisational goals. A manager's responsibilities are outlined below.

- Managers contribute in determining the vision, mission, goals, and long-term and operational objective of their organisation. They also strive for achieving these objectives by managing the effort of others.
- A manager is responsible for the function that comes under his jurisdiction. For example, an Accounting Manager supervises the accounting function. An Operations Manager is responsible for the operations of the company that are performed under his authority.
- A manager usually has the authority to change/alter the work assignments of his team members.
- Managers may direct workers directly or they may direct several supervisors who direct the workers.
- A manager either has the power to hire or fire employees and to promote them or he/she can only recommend such an action to the next level of management.
- Managers ensure that corporate values are maintained in dealings with other stakeholders of business: vendors, customers, employees, public, government bodies, etc.

Goals of Managers and Organisation

It is normally felt that the aim of business managers is to make a profit. But what is profit? It is only a measure of the surplus of sales revenue over cost incurred as expenditure period. Ideally, all types of managers, even if they are termed as administrators or volunteers, in all kinds of organisations (whether commercial, business or not-for-profit organisations should aim to generate a surplus by establishing an environment in which people can accomplish group goals with optimum amount of resources and the least level of personal dissatisfaction. By creating a surplus, managers increase the long-term value of the common stock of the organisation to maximise the wealth of shareholders. To generate surplus for their organisations, managers need to achieve the following objectives.

(a) ***Planning for Future:*** Managers should not be satisfied with the present accomplishments, but need to prepare a plan to be successful in the future as well. This planning for the future ensures that the organisation would remain relevant to its customers in the future by evolving in accordance with the changes in the environment.

(b) ***Minimising the Element of Risk:*** Although it is very difficult to predict the future, yet managers need to analyse the existing circumstances by using their experience and foresee the risks associated with the uncertainty of the future. The future risks cannot be eliminated completely, but managers can develop contingency plans to minimise the impact of the risks.

(c) ***Mobilising Talent:*** The employment of quality talent helps in enhancing the efficiency and effectiveness of various factors of production. Managers need to create a proper environment with better pay offer, good work culture, career growth opportunities, etc. which can encourage competent individuals to demonstrate an interest in joining the organisation.

(d) ***Optimum Utilisation of Resources:*** Managers aim at achieving most efficient and economical utilisation of resources. The proper use of the factors of production (men, materials, machinery, money and information) helps the business earn sufficient profits to serve the interests of investors, employees, customers, etc.

(e) ***Improving Performance:*** Managers should aim at improving the performance of each and every factor of production and enhancing return on investment from them over a period of time.

(f) ***Discipline and Morale:*** Managers need to maintain the required level of discipline through adequate control measures. They also have to keep the morale of individuals high by applying the principles of decentralisation and delegation of authority and through provision of monetary and non-monetary incentives.

(g) ***Quality of Goods and Services:*** To ensure customer satisfaction and customer retention, managers need to aim at producing the products and services of such quality that is desired by customers. Also, the cost of production should be optimum, which will help in reducing the selling cost and increasing the overall profitability through large-volume sales.

(h) ***Attracting and Keeping the Customers:*** Managers can achieve their goals and objectives if they can attract and retain a steady flow of profitable customers. This could be made possible by offering customers products and services as a solution to their needs in a cost-effective manner.

(i) ***Ensuring Regular Supply of Goods:*** Managers need to be adept at developing an optimum balance between demand and supply so that there are neither stock-out situations nor overstocking of the inventories. Both these situations reduce the overall profitability of the organisation.

(j) ***Promotion of Research and Development (R & D):*** Managers need to make an attempt to promote R & D in the organisation so as to take lead over their competitors through the development of innovative products, services and managerial practices. This helps in aligning the organisation with the changes in the technical environment.

(k) ***Growth and Development of Business:*** Growth is extremely vital for an organisation for many reasons. Managers need to contribute to the growth and development of business through proper planning, organising, staffing, directing and controlling function.

Nowadays one of the most over-arching goals of the top management of business enterprises is to maximise the return to their shareholders through a long-term increase in the value of their common stock (share price). It is felt that the price of the stock of an organisation on the stock market is a key indicator of the long-term profitability of an organisation. It generates confidence for the organisation in the investor community, which makes it easy to raise low-cost funds for the growth and development of the organisation in the future.

MANAGEMENT SKILLS

Managers at different hierarchical levels are assigned specific responsibilities and defined targets of organisational goals that they must deliver. Managers must be adequately skilled and competent to discharge the assigned responsibilities and achieve set goals. Robert Katz[16] identified three types of managerial skills that are essential for successful management: technical skills, human skills and conceptual skills.

(a) ***Technical Skills:*** Technical skills include the knowledge, proficiency and ability of the manager to apply specialised knowledge or expertise for the successful completion of an assigned task. A technical skill is the ability to use tools, techniques, and specialised knowledge to carry out a method, process, or procedure (Higgins[17], 1994). In technical skills, managers use the processes, techniques and tools of a specific area. For example, mechanics work with tools. Their supervisors should have the ability to teach them how to use these tools effectively and efficiently. Similarly, a manager in the accounts department should be familiar with the fundamentals of accounting systems to guide the accountants to apply specific and most appropriate accounting techniques while performing their job.

Technical skills of a particular field are acquired through extensive formal education, short-term training programmes and regular practice while doing the job. Technical skills are of great significance for managers in the frontline managerial positions and their importance diminishes as one progresses in the managerial hierarchy.

(b) ***Human Skills:*** These skills are also termed as interpersonal or human relations skills. These represent the ability of a manager to work effectively with other people to communicate, motivate, delegate, develop commitment, build positive interpersonal relationships, solve human relations problems, build acceptance of one's co-workers and relate to them in a way that their behaviour is consistent with the needs of the organisation. The aim of human skills is to create an environment in which people feel secure, freely to express their views and feel encouraged to perform.

Many people are technically proficient but are not that competent interpersonally. As managers have to get things done through other people, they must have good human skills to communicate, motivate, delegate and diplomatically handle the complex and conflicting situations. In order to have good human skills, a manager should be a good listener, capable of understanding the needs of others, good at handling conflicts, etc. The importance of human skills can be understood from the fact that people's problems are so often cited as a core cause of business failure.

Managers should also possess political skill that can enable them to obtain power and influence over others and prevent other employees from taking away their power. Managers often use power to achieve organisational objectives, but with political skill they can reach goals with less effort as compared to those who lack political skill.

(c) ***Conceptual Skills:*** One of the major roles of any manager is decision-making. Conceptual skills are employed in planning, formulation of ideas and solving of problems in a creative manner by understanding abstract relationships between different factors affecting the business. Analytical, creative and intuitive talents together make up for the manager's conceptual skills.

Conceptual skills involve the ability of a manager to see the 'big picture' of organisation as a whole to recognise significant elements in any situation; understand the relationships among different elements; and, solve problems in a way that benefits the entire organisation (Higgins[18], 1994).

Managers at the top level must have the ability to analyse and diagnose complex situations to make decisions that have serious repercussions for the survival and future of the entire organisation. To perform effectively, managers should have good design skills to develop solutions for problems in a manner which will benefit the entire enterprise. They must be able to conceptualise a problem and work out practical solutions for it.

Thus, we can conclude that technical skills enable a manager to deal with things, human skills are concerned with people management, and conceptual skills are related with ideas. Although all three management skills are important at all three levels of management, yet the relative importance of these skills is determined by a manager's level in the organisation hierarchy.

Managerial Skills and Organisational Hierarchy

Although all types of managerial skills are required by managers at different hierarchical levels, yet their relative importance varies from one level to the other in the organisational hierarchy.

Top management spends much more time on planning and organising vis-à-vis lower level managers. At the top management level, conceptual and design abilities become most valuable, and the need for technical abilities is relatively low. In large companies, CEOs can utilise the technical abilities of their subordinates. In smaller firms, technical experience may still carry some importance at the top level of managerial hierarchy.

Design skills are of great significance for top-level managers in order to be effective. But these skills are also somewhat useful at middle and supervisory management positions to design innovative solutions, align business with the changing business environment and resolve implementation issues and concerns.

Different levels of diagnostic skills are required by managers across the three levels of management, primarily due to different types of problems that need to be addressed at each level. Frontline managers deal primarily with the issues of operations, motivation and discipline. Thus, they need to investigate why the performance of a particular employee is going down and how to improve it. Middle managers, dealing with the issues related to larger work units such as a division, a plant or a department, have to diagnose why production in a particular department or sales in a particular region has gone down. Top managers diagnose organisation-wide problems and address issues such as strategic position, the possibility of outsourcing a task, or opportunities for overseas expansion of a business, etc.

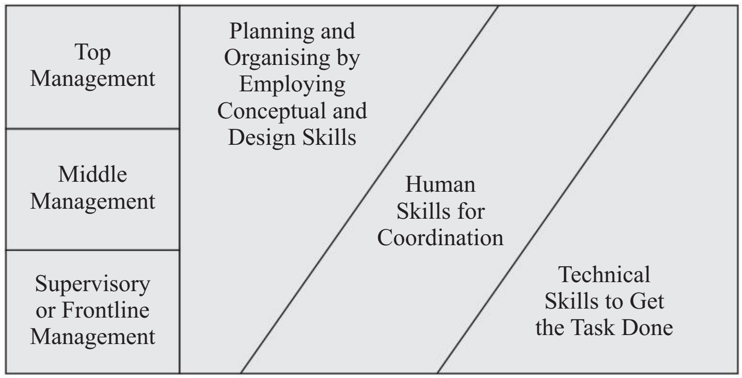

Figure 5.4 Management Skills

At middle management levels, the need for technical skills decreases but human skills are essential and conceptual skills become more important than their requirement at the supervisory level. At the supervisory or frontline level, technical skills are of greatest importance because managers at this level spend most of their time in leading people who execute tasks.. Human skills are quite helpful for frontline managers because frequent interaction with subordinates is an essential part of their responsibility. Conceptual skills are usually not critical for lower-level supervisors as very little planning has to be undertaken at this level.

To summarise, conceptual skills are relatively more important at the top level of management. Technical skills are required more at frontline managerial positions by supervisors to manage their tasks. Although managers at all levels need human skills to interact and communicate with other people effectively, yet their importance is the highest at middle management positions. The manner in which different skills are practised also varies significantly across different levels of managerial hierarchy.

Management Practices

The Centre for Economic Performance carried out a large research project[19] (with McKinsey & Company) to measure management practices in a systematic way in more than 4,000 manufacturing firms across Europe, the USA and Asia. Compelling evidence from the research indicated a strong link between better management practices and higher productivity and other indicators of corporate performance, including return on capital employed, sales per employee, sales growth and growth in the market share.

As effective performance appears to be strongly linked with good management, all firms try to use better management practices on a priority basis. Although knowledge of good practices is widely available in the public domain, yet many firms are still poorly managed.

McKinsey has identified 18 key management practices applicable to industrial firms. These 18 practices fall into the following four broad areas[20].

- **Shopfloor operations**: Practices focusing on adoption of lean manufacturing in letter and spirit.
- **Performance monitoring**: Practices to track and measure what goes on inside the organisation.

- **Target setting**: Steps to set the right targets and track the right outcomes, and take appropriate action if the two are not aligned.
- **Incentive setting**: Practices aimed at hiring, developing and keeping the right people and providing them with appropriate incentives to succeed.

MANAGER vs LEADER

There is a common perception that managers and leaders are the same, but managers are generally not leaders and the vice versa. Although there are some similarities, yet entirely different sets of competencies are required to be an effective leader and a competent manager. The qualities for the two, i.e. a leader and a manager, are generally not found in a single individual.

John Kotter[21] (1990), a leading management luminary and former Professor at Harvard Business School, proposes that management and leadership are different but complementary systems of action. One cannot function without the other. The organisation that embraces and synergises both the systems and manages their contradictions can thrive in an increasingly complex and turbulent business environment.

Commonality between Management and Leadership: Both leadership and management involve deciding what needs to be done, by establishing a network of people and relationships, and then ensuring that those people actually succeed in accomplishing the pre-defined objectives.

Difference between Management and Leadership: Leaders and managers accomplish the assigned tasks in different manners. For example, managers handle complexity by planning and budgeting—i.e. by setting goals for the near future, establishing detailed plans and schedules for achieving those goals, and then allocating adequate resources to implement those plans. By contrast, leaders manage change by setting a direction—i.e. developing a vision of the distant future and formulating strategies for producing the changes needed to achieve that vision[22]. The information presented in Table 5.4 clearly distinguishes between leadership and management on various aspects.

Table 5.4 Management Vs Leadership

Management	Leadership
Establishes order: Effective management brings a degree of order, stability and consistency to key dimensions, like operations, practices, procedures and quality.	**Introduces change and creates disorder**: Effective leadership usually creates a disorder by introducing change to status quo in order to make the things better.
Managers do planning and budgeting: Planning is a management process to produce orderly results. It works best not as a substitute for direction setting but as a complement to it. Direction-setting clarifies that what type of planning is essential and gives a focus for planning.	**Leaders set the direction:** It is a process to identify an appropriate path for movement. It does not produce plans, but creates vision and strategies. Since leadership intends to produce change, setting the direction of that change is fundamental to leadership.
Management is about coping with complexity: Management is an effort to reduce the complexity and bring in order and stability.	**Leadership is about coping with change**: It introduces change to align a business organisation with the changing business environment.
Incremental in nature: Managers promote stability and prefer incremental growth and a gradual change.	**Exponential by nature**: Leaders press for change and prefer exponential growth and disruptive change.

Organises people: Managers 'organise' people by creating a human system that can implement plans as precisely and efficiently as possible.	**Aligns people**: Leaders 'align' people by empowering and motivating them to carry out their tasks through appropriate communications.
Position power: Managers usually rely on position power to get the things done.	**Personal power**: Leaders prefer to use personal power to get the things done.
Avoid risk: Managers tend to avoid risk and seek the comfort of safety and security.	**Comfortable with risk**: Leaders by nature love to take calculated risks to make things happen.
Controls people: Control mechanisms of management push people to perform by comparing their output with plan and taking action when a deviation is detected.	**Motivates people:** Leaders motivate people and channelise their energies by satisfying human needs for achievement, recognition, sense of belongingness, self-esteem, etc.

Very few people can be good at both leading and managing. Some have the capacity to become excellent managers but not effective leaders, and others have great leadership potential but, face great difficulty in becoming effective managers. Smart organisations value both kinds of people and work hard to make them a part of the team by assigning them roles according to their inherent capacity and potential.

It has been observed that majority of business organisations in the present context are overmanaged and under-led. They need to develop their capacity to exercise leadership. While improving their ability to lead, companies should remember that strong leadership with weak management is no better, and is sometimes worse than the reverse. The real challenge is to combine strong leadership and strong management and use each to balance the other[23].

CHALLENGES FOR MANAGERS

In the world of hyper-competition and ever-changing business environment, the challenges for managers have increased manifold. The following factors are influencing the working of managers in an organisational setting:

(a) ***Cultural diversity:*** With organisations becoming global, managers have on their team people from different socio-cultural backgrounds. Managing these diverse groups with a uniform set of practices and approach is a significant challenge.

(b) ***Social responsiveness:*** Society expects businesses to display an active responsiveness towards them by demonstrating a socially responsible behaviour.

(c) ***Ethical and moral obligations:*** There are great expectations of both employees and other stakeholders of business entities that their managers should display ethically and morally correct behaviour. It is becoming increasingly important for managers to understand this need and display an appropriate conduct while performing their role.

MANAGEMENT: A CRITICAL APPRAISAL

Managers have to perform an increasingly challenging role by balancing the needs of internal and external stakeholders. They need to be equipped with a bouquet of skills to meet this challenge. At the same time they should be prepared to consistently learn, unlearn and then relearn the managerial practices to be relevant in the highly competitive business world that has to fight a daily battle for their growth and survival in the context of ever-changing business environment.

In an empirical research, managers were found to be poor at self-assessment. They were found to be over-optimistic about their own management practices across the globe. At the country level, the Greek, Portuguese and Indian managers were observed to be the most over-optimistic about their management practices while the Japanese, Swedish and French managers were found to be least over-optimistic[24].

Conclusion: The essence or nature of the discipline of management is that it applies to organisations of all sizes and all types: manufacturing, service, non-profit, government, etc. It is practised by managers at all levels in the organisation hierarchy—from the CEO down to the supervisor. It involves the performance of functions such as planning, organising, staffing, leading, coordinating and controlling to optimally manage the resources at its command and generate a surplus for the growth of the organisation.

Points to Remember

(a) Management refers both to the person(s) who perform the act(s) of management as well as the process that involves planning, organising, resourcing, leading, directing and controlling different activities for the accomplishment of desired goals.

(b) Management is the art of getting things done through people. It the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims.

(c) The connotations associated with management are: It is a goal-oriented and an integrative process, an intangible factor of production, a system of authority, a discipline, a profession and a dynamic function.

(d) Management is both science and art.

(e) The scope of management comprises intellectual activities, functional activities of management and much beyond the conventional business administration.

(f) Management of an organisation can be classified into following three levels on the basis of hierarchy of managers: Top Management, Middle Management and Frontline Management.

(g) Supervisors as frontline managers play a vital role and are directly responsible for the performance of employees involved in various operations. They implement the operational plans developed by middle-level managers and act as a link between the management and the workforce.

(h) The role of a manager is to create and maintain an internal environment, that enables individuals transform their potential into performance for facilitating the achievement of organisational goals. To create the required internal environment, the manager uses resources, like people, technology, facilities, equipment, materials and supplies, information and money.

(i) Henry Mintzberg identified ten roles that are common to all managers, which are further classified under three broad groups: interpersonal roles (figurehead role, liaison role and leadership role), informational roles (monitor role, disseminator role and spokesperson role) and decisional roles (entrepreneurial role, disturbance-handler role, resource allocator role and negotiator role).

(j) Robert Katz identified three managerial skills essential to successful management: technical skills, human skills and conceptual skills.

(k) Technical skills include the knowledge, proficiency and ability of the manager to apply specialised knowledge or expertise for successful completion of an assigned task.

(l) Human or interpersonal skills represent the ability of the manager to work effectively with other people to communicate, motivate, delegate, develop commitment, build positive interpersonal relationships, solve human relations problems, build acceptance of one's co-workers and relate to them in a way that their behaviour is consistent with the needs of the organisation.

(m) Conceptual skills involve the ability of the manager to see the 'big picture' of the organisation as a whole to recognise significant elements in any situation; understand the relationships among different elements and to solve problems in a way that benefits the entire organisation.

(n) Conceptual skills are relatively more important for top-level managers; for middle-level managers, human skills are essential; and, technical skills are required more for frontline managers as they spend most of their time in leading people who execute tasks.

(o) Managers are generally not leaders and the vice versa. Although there are similarities, yet entirely different sets of competencies are required to be an effective leader or a competent manager. The qualities for the two are generally not found in a single individual.

Review/Discussion Questions

1. Define management.
2. What is the nature of management?
3. Whether management is science or art?
4. Can the fundamentals of management be applied universally?
5. What are the functions of management?
6. What is the nature and scope of management?
7. Explain the different roles that a manager has to play while performing his/her professional duty?
8. Enumerate the skills that a manager needs to possess.
9. How do the managerial roles and application of different management skills vary with different hierarchical levels?
10. Define who is a manager and what does managers do.
11. What are the goals of managers?
12. What are the challenges for managers in the present-day business scenario?
13. What are the different levels of managers and the different roles played by managers at different hierarchical levels?
14. What are the differences and commonalities between managers and leaders?

Field Exercises/Class Exercises/Group Projects

1. Students can spend one day with a manager in an observation mode and try to figure out the routine and practices adopted, role performed and the skill employed by him/her, throughout the day. These observations can then form part of a class discussion facilitated by the faculty to bring forth the nature of managerial effort undertaken by a manager in his/her day-to-day life.
2. Students can identify an activity the performance of which encompasses implementation of all the functions of management. Students should submit a written assignment reflecting the application of different functions of management while executing that activity.

On the Internet

1. Visit http://elt.heinle.com/cgi-telt/course_products_wp.pl?fid=M691&product_isbn_issn=0759398569&chapter_number=11&resource_id=8&module_id=25227 to learn what makes a good manager?
2. Log on at http://www.umass.edu/humres/library/Super.htm to learn about supervisory leadership development

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Case Study

Management in Action

A special meeting of Lighthouse Institute of Management (LIM), Ambala (Haryana), is in progress in the office of the Chairman of the institute, Mr. T.C. Garg. The meeting has been called to discuss an important issue that was raised by the Director Dr. Krishna Kamte, with the Chairman last week. Dr. Kamte had submitted a written proposal to de-affiliate the institute from the Haryana Technical University and transform the existing MBA programme into Post Graduate Diploma in Management (PGDM). Mr. Garg thought it appropriate to call a meeting and seek the opinion of Dean (Academics), HOD, some faculty members and students before making up his own mind.

The agenda for the meeting was circulated three days in advance so the attendees can critically analyse and evaluate their stance to be taken at the meeting, and collect supporting evidence for their viewpoints.

Mr. Garg opened the meeting with a welcome note and turned towards the young management student, "Bharvi, you are one of the brightest students of our institute. What are your views on the agenda of today's meeting?" Bharvi immediately responded, "Thank you everybody for giving me this wonderful opportunity to share my views on this topic of strategic nature". After a pause, she said, "I am strongly in favour of this move as the curriculum and the evaluation system of our university are not leading to any skill upgradation among the students."

Mr. Sanjay Verma, the HOD of the MBA Department, immediately jumped into the discussion, stating: "Sir, we have established the MBA programme after the years of hard work and dedicated effort. Now when our system has stabilised, you want to destroy it. I don't think it would be in the interest of the faculty, the management and the institute."

Dr. Puneet, the Dean (Academics) of the institute, came to the support of Mr. Verma empthatically "Sir, we must take into consideration the fact that industry and society in this region acknowledge and respect only the MBA degree. The PGDM nomenclature is not so well accepted in our region. This move would affect us negatively from multifarious perspectives, as the parents of children want them to do MBA not PGDM."

The Chairman, while intervening in the discussion, turned towards the faculty members sitting in one corner of the conference room, "Dr. Monika, you are the seniormost among the faculty members. What is your take on this issue? Monika replied: "Sir, we must understand that these are highly competitive times, and we need to be customer-oriented. Our customer is industry, who seeks our output, the MBA student. We must admit that the current syllabi of the university would not help us to delight our end customer—the industry, and the indirect customer—the society to whom we advertise for seeking the inputs as students."

Dr. Puneet, the Dean (Academics), could not resist his temptation to speak and interrupted Dr Monika, saying, "Madam, we are known for our MBA programme, and you want to kill the cash cow, which is generating too much revenue for our future growth."

The Director, Dr Kamte, who has been a silent spectator so far, felt that it was right time for him to intervene. He said: ‘Respected Sir, and my team members, please understand. I have the responsibility to build the institute for the future, and the long-term trend is towards PGDM. IIMs, MDI, XLRI, ISB, the Goa Institute of Management, AIMA all are offering PGDM, and they all have excellent placements, much better than any MBA programme in the country’.

Dr. Puneet, responded strongly, stating, ‘Sir, I beg to differ. We can’t compare ourselves with these institutes. Our students, curriculum, pedagogy—all are very different from them, and I don’t feel we have adequate competence in our faculty to take such a big leap.” Mr. Verma, seeing a support for his argument in favour of maintaining the status quo, silently nodded and said politely: “Sir, I must call to attention the fact that we are yet to stabilise the radical changes in teaching methodology that were introduced by the Director Sir this semester, and it would be a clash of interests, if we start planning for another radical change before being successful in the first.”

Dr. Kamte, cutting Mr. Verma short jumped into the discussion, “Mr. Verma, IIMs are expanding, global universities are likely to be here soon, and new colleges are coming up every day. Do you think we have time and luxury to be slow in our move to be a centre of excellence? We are rated among top 75 institutes of the country, and I believe by moving towards the PGDM system we can be among the top 35 in two years’ time. I am personally ready to take on the responsibility.”

At this time when the house was divided into two camps, the Chairman sensed that the decision could not be arrived at, no matter how long the discussion went. He intervened, “Ladies and gentlemen, I am thankful for the time and efforts you spent for this cause. This issue cannot be resolved so soon, so I request you to submit your assertions in writing, and we would discuss them in the next meeting of the trust”.

Questions for Discussion and Analysis

1. What different managerial roles are played by different attendees of the meeting?
2. Analyse how the different skills are required at different hierarchical levels during the planning and decision-making process.
3. Try to visualise the enactment of different functions of management by different attendees of the meeting.
4. Identify the attendees who are acting as leaders and those who are acting as managers. Support your answer with suitable conceptual background.
5. Analyse the communication process, conduct of the meeting, management styles, planning and the decision-making process enacted by different attendees.

Chapter 6

Evolution of Management Thought

The work goes on, the cause endures, the hope still lives and the dream shall never die.

—Alfred Lord Tennyson

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand the evolution of managerial practice prior to the Industrial Revolution
- comprehend major management theories of 20th century
- know about the contribution of select management thinkers to the discipline of management
- explore the developments in management discipline in the second half of 20th century
- understand contemporary management viewpoints: Management by Objectives (MBO), Quality Management System, Business Process Reengineering, Chaos Models of Management
- comprehend 21st century approaches to management

INTRODUCTION

The first known management ideas were recorded in 5000 BC when Sumerian traders developed written records for government and commercial use. The application of management is also evident in the

Egyptian civilization as early as 4000-3000 BC. The pyramids of Egypt built with millions of stone blocks by utilising the services of people are the testimonials of a coordinated effort on an extremely large scale. Creation of such huge structures would have certainly required extensive planning, decision-making, organising men and materials, and supervision.

Romans also made significant contribution to management, which is reflected in western military hierarchy and public administration systems. It would not have been possible to manage the large Roman empire without application of sound management principles. Management strategies and practices were also developed informally by the slave owners for exploiting/motivating a dependent but sometimes half-hearted workforce. Similarly, techniques were developed by army commanders to motivate their mercenary soldiers and slaves to perform the assigned task in accordance with their actual potential.

The codification of management thought got a boost with the spread of Arabic numerals between the 5th and 15th centuries and the development of double-entry book-keeping in 1494. But, the small-scale, pre-Industrial Revolution business enterprises did not feel a compelling need for formal, systematic management. Most promoters of those times kept on carrying out the management functions by and for themselves.

EARLY WRITINGS ON MANAGEMENT

Works of several writers in the area of governance of kingdoms and man management created a literature that assisted in the development of modern management theories. The early leadership and management models were provided by military, political, mythological and religious organisations. Some early writings that subsequently influenced the development of managerial thought are described below.

- ***Sun Tzu's The Art of War:*** This book on military strategy was written by Chinese general Sun Tzu in the 6th century BC. But, the writings in the book can very well be used for managerial purposes. The book recommends that success can be achieved by being aware of utilising the organisation's strengths and utilising them to exploit the weaknesses of the rival or enemy. It emphasises the importance of discipline in order to get the things done through a coordinated group effort.
- ***Chanakya's Arthashastra:*** This treatise, developed around third century BC, deals with the governance of kingdom by a king or a leader. It lays down the principles that should be taken into consideration by a leader while making the policies of governance and people management. It highlights the importance of creation of departments, development of detailed job profiles and qualifications of administrators who had to manage these departments as directors. *Arthashastra* considerably affected the administrative philosophy of different rulers of India for centuries.
- ***Machiavelli's The Prince:*** This book was written by Niccolò Machiavelli in 1513 as a counsel for the leadership of Florence, Italy. Machiavelli recommended in this classic that the ends justify the means and that a leader should use fear, not hatred, to maintain control.

Effect of the Industrial Revolution on Management

The Industrial Revolution made a significant contribution to the development of management thought before the 20th century. The substitution of human power with machine power made it possible to manufacture goods in large numbers in factories more economically. Consequently, there emerged large-scale businesses which required managerial skills to produce goods in an efficient and profitable manner.

The growing size and complexity of business organisations led to the requirement of managers to handle various business-related tasks, like assessing the demand of goods, ensuring the availability of raw materials, assigning tasks to factory workers, supervising the production and sale of goods, maintaining quality standards, etc. To enable managers discharge their multifarious activities systematically, the need to develop literature on management practices was felt. Scholars responded to this need by producing premiere literature on management in the coming centuries. Let us have a look at some of these works.

18th Century Management Literature

(a) ***The Wealth of Nations by Adam Smith:*** From the conceptualisation perspective the greatest contributions to management thought occurred during and after the 18th century. Renowned economist Adam Smith in his management classic, *The Wealth of Nations* (1776), described the economic advantages that can be derived from division of labour, that is, break-down of jobs into narrow and repetitive tasks. The popularity and worldwide acceptance of the concept of job specialisation can be credited to the economic advantages propounded by Adam Smith.

(b) Innovators like Eli Whitney (1765-1825), James Watt (1736-1819) and Matthew Boulton (1728-1809) developed elements of technical production such as standardisation, quality-control procedures, cost-accounting, interchangeability of parts and work-planning. These works led to the creation of literature on technical aspects of management that could guide the practising managers to perform their roles in an efficient and effective manner. All this led to the strengthening of the Industrial Revolution.

19th Century Management Literature

The modern management discipline evolved as an offshoot of economics in the 19th century. Classical economists such as John Stuart Mill (1806-1873) took forward the work of Adam Smith and provided a theoretical background to resource-allocation, production and pricing issues in the 19th century. By late 19th century, economists such as Léon Walras (1834-1910), Alfred Marshall (1842-1924) and others succeeded in providing a comprehensive theoretical background for further development of management literature in the 20th century.

Robert Owen (1771-1858) made the first social experiment in managing others by instituting performance enhancing interventions, like performance evaluation system, incentive-based pay system, safer working conditions, and helping workers to acquire housing for themselves. In 1881, Joseph Wharton took the profession of management one step ahead by becoming the first management scholar to offer a tertiary-level course in management.

20th Century Management Literature

The first major step toward developing a systematic managerial text was undertaken in the early 1900s by the practising managers. They developed their theories on how to perform the managerial role on the basis of their practical experience. They regarded their works scientific as these were based on empirical studies which they actually applied in business organisations. Select works of management scholars of the early 20th century include: F.W. Taylor's *The Principles of Scientific Management* (1911), Henry L. Gantt's Charts (1910) and Frank and Lillian Gilbreth's *Applied Motion Study* (1917). Another professional, Henry Fayol (1841-1925), developed the theoretical framework for different functions and principles of management.

The first textbook on management was written by J. Duncan in 1911 and the early comprehensive theories on management appeared around 1920. The discipline of management got a strong foundation when Harvard University became one of the first American universities to offer a graduate degree in business management in 1908. The curriculum for teaching management was based on the analysis of relevant real situations in the business world. This led to development of the case study method of education.

Scholars like Ordway Tead (1891-1973), Walter Scott and J. Mooney applied the principles of psychology to management in the second quarter of the 20th century. Other researchers like Max Weber (1864-1920), Mary Parker Follett (1868-1933), Elton Mayo (1880-1949), Chester Barnard (1886-1961), Rensis Likert (1903-1981) and Chris Argyris approached the discipline of management from a sociological perspective. Thanks to the works of these scholars, the human relations school of management got prominence.

Around World War-II, H. Dodge, Ronald Fisher (1890-1962) and Thornton C. Fry introduced mathematical and statistical techniques into management studies to give the discipline of management a more quantitative and scientific basis, rather than the basis of assumptions, that is, the rule-of-thumb basics. Patrick Blackett combined the statistical theories with microeconomic theory in the 1940s, and laid the foundation of Operations Research in the 'Management Science' to optimally solve management problems in the areas of logistics and operations.

In the post-World War II scenario, Peter F. Drucker published *Concept of the Corporation* in 1946, a treatise on the nature of business organisation. This analytical work immaculately described different dimensions and facets of a business organisation. Drucker developed the concept of Management by Objectives (MBO) in the 1950s as a comprehensive system-based approach to accomplish the organisational objectives.

Management literature in its present form is both a reflection of and a reaction to different management theories and approaches developed over a period of time. These theories and approaches have their own share of useful applications as well as limitations because no single theory or approach can capture multi-faceted discipline of management in its entirety. The co-existence of a large number of managerial approaches, with none of them being the best among all, made management expert Harold Koontz[1] coin the term 'Management Theory Jungle'.

MAJOR MANAGEMENT THEORIES

In 1975, Raymond E. Miles described the evolution of management theory in the United States in the form of a model in his book *Theories of Management: Implications for Organisational Behaviour and Development*. His model includes different phases such as Classical, Human Relations, and Human Resource Management. Different management theories and managerial thoughts are described here briefly in the order of their evolution.

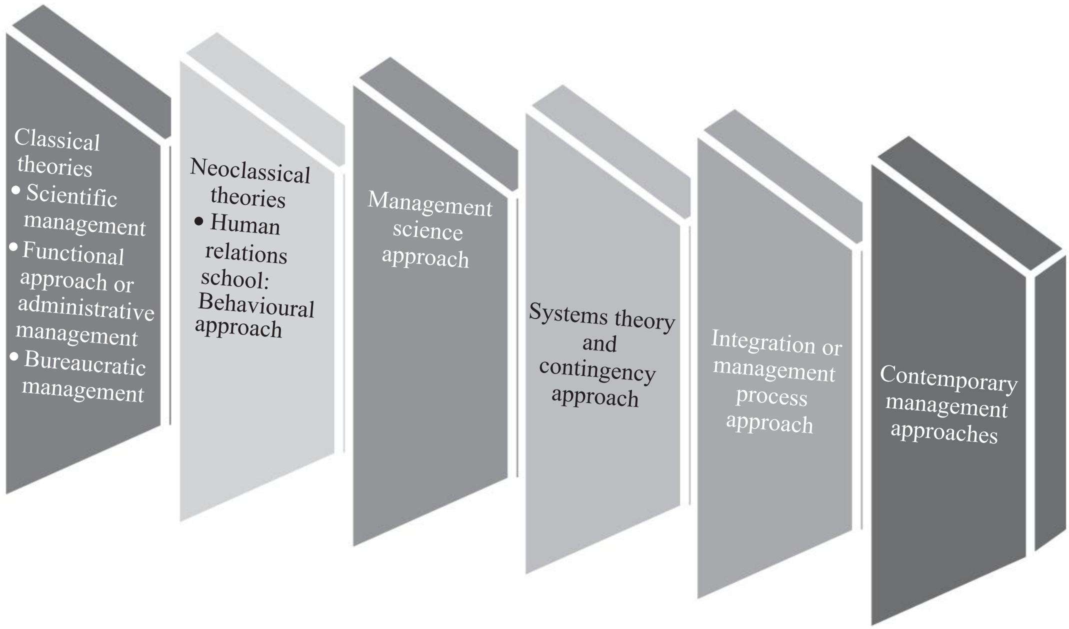

Figure 6.1 Management Theories

CLASSICAL THEORIES

The Classical school of thought evolved in the late 1800s and early 1900s and continued into the 1920s. The classical management approach focused on attainment of efficiency and productivity in an organisational setting. The predominant characteristics of different Classical theories are as follows:

(a) Emphasis was placed on the economic rationality of the individual employee. It was based on the assumption that people choose that course of action which would maximise their economic reward. This approach, which was an extension of Adam Smith's ideology, advocated the provision of monetary incentives to encourage employees to work hard to realise their true potential.

(b) The assumptions of Classical theorists are generally based on negative views about human nature with respect to performance of role and responsibility in an organisational setting. Although these assumptions are true to some extent, the Classical theorists ignored the positive aspects.

(c) The Classical theorists recognised that humans have emotions, but they felt the emotions could be controlled by a logical and rational structuring of jobs and work.

The Classical school of management thought can be classified into three general branches: Scientific Management, Administrative Management and Bureaucratic Management.

Scientific Management

The scientific management approach was advocated by Fredrick W. Taylor at the end of the 19th century and the beginning of the 20th century to improve the labour productivity by analysing and improving the workflow process.

Apart from Taylor, Gilbreths and Gantt also advocated scientific management. According to this approach, management is all about analysing work in a scientific manner to identify one best way of doing a particular task and then ensuring that the task is done in the identified way only. Taylor[2] defined scientific management as a means of knowing exactly what you want people to do and then seeing that they do it in the best and the cheapest way. The focus of this approach is not to work according to the rule of thumb or generally held assumptions but in a scientific manner by classifying the given work into simple and routine tasks that can be done efficiently with little training.

This approach focuses on improving organisational productivity by developing an appropriate man-machine relationship. It emphasises that jobs should be designed in a manner that they economise on time, human energy and other productive resources. Each worker needs to have a specified, well-controlled task that can be performed as instructed by following clearly laid out procedures and methods with no exceptions. Taylor's scientific management treatise consisted of the following principles:

1. ***Scientific Job Analysis:*** It includes replacing the rule-of-thumb work methods with methods based on measurement and scientific study of various tasks and providing detailed instructions and supervision to each worker about how to perform each discrete task (Montgomery[3] 1989: 250).
2. ***Scientific Selection and Training of Personnel:*** Select the persons who are right-fit for a job and then train and develop them to perform that job efficiently and effectively.
3. ***Management Cooperation:*** To inculcate harmony between management and workers while performing group action to achieve cooperation instead of individualism.
4. ***Functional Supervising:*** Divide work between managers and workers in such a manner that managers focus on planning the work and supervising it, whereas workers focus their energy on carrying out the assigned tasks.
5. ***Standardisation:*** Firsty, an attempt has to be made to identify one best way of doing a task and then standards should be developed with respect to its execution. Uniformity of tools, practices, procedures and processes should be ensured in the task execution so that the entire organisation adopts a uniform 'one best way' to do that task.
6. ***Financial Incentive:*** Management should provide adequate financial incentives that are linked with the output of workers. This approach believes that workers would act in a rational manner and put in the optimum level of energy and commitment to attain additional financial rewards.

Scientific management attempts to work in a manner that leads to greatest benefit for both the employer and the employee—through 'high wages' for the workers and 'low labour cost' for the employers. It also advocates that 'the individual has reached his highest state of efficiency…turning out his largest daily output without overtiring or straining himself for the next day's work' (Taylor[4], 1911).

Advantages of Scientific Management

- Scientific management made a significant contribution in the development of efficient production methods, which led to major gains in productivity.
- The systematic and rational approach of determining the best way to do an individual task was an early proponent of quality standards.
- Scientific management is based on the philosophy that measurement enables improvement.

- It advocates direct reward mechanism for workers rather than the end-of-year profit sharing schemes.
- It led to improvement in the living standards of workers through higher wages on the one hand and the availability of goods at lower prices on the other.

Disadvantages of Scientific Management

- Taylorism can be abused and was actually abused by some employers to exploit workers.
- In many cases it led to conflicts between management and labour unions.
- It is not very useful to deal with the people who are working together as groups or teams because it does not take into consideration the psychological and sociological aspects.
- It advocated separation of planning function from doing. That is why, it is not very useful in organisations with large number of knowledge workers. In such organisations, creativity, initiative and thinking are required from one and all, not from select few.
- There is overemphasis on measurement and systematic working, as if human beings are machines. The human element, which plays a significant role in influencing productivity in an organisation, was largely ignored.
- It focuses on the development of the individual not for his own self-worth but for the advantage of the organisation.

Although this approach has been criticised severely by management scholars, yet some of its facets are still being employed by the industry by blending them with the philosophies of other approaches. In many ways McDonalds is the archetypical example of an organisation employing scientific management. All the McDonalds restaurants throughout the world function in a uniform way irrespective the country of their residence. It is this ability to efficiently supply almost standard food (with slight customisation according to culture and taste) and service throughout the world that has allowed McDonalds to become the biggest restaurant chain on the planet (Peters and Waterman[5], 1982).

Scientific management has also served as an insight for many latter management philosophies and approaches including Operations Research, Management by Objectives (MBO), Balanced Scorecard, Just-in–time, Lean Manufacturing, Total Quality Management (TQM), Six Sigma and Business Process Reengineering (BPR).

Contributor to Scientific Management

Given below is a brief description of the profile and contribution of different scholars to the scientific management approach.

(a) ***Frederick Winslow Taylor (1856-1915):*** An American mechanical engineer, Taylor is acknowledged as the father of 'Scientific management' or 'efficiency movement'. His primary focus was on increasing productivity by the application of scientific methods. The scientific management model, proposed by Taylor, resulted in dramatic increases in productivity.

Taylor was an efficiency expert. He examined the time and motion details of a job to develop a better method for performing it. Then he proposed appropriate selection of manpower and provision of proper training for workers to enable them perform their role in a specified manner to improve productivity. To motivate workers to give their best possible contribution, Taylor introduced a piece rate method that increased the overall compensation for workers as they produced more within a given time period.

Profile: Taylor started his career as an apprentice pattern maker and machinist in 1875. He observed the gross inefficiencies prevalent in the manufacturing process because of the manner in which people approached their work. In order to gain hands-on shop-floor expertise and perform his efficiency-related experiments, Taylor took up a job as an unskilled worker at Midvale Steel Works in 1878.

Taylor pioneered his signature time and motion studies of work processes at Bethlehem Steel Company in Pittsburgh. In 1881 he gained a Master's degree in Mechanical Engineering and rose to the position of general manager at Manufacturing Investment Company, Philadelphia. He also worked as an independent management consultant and a consulting engineer for managements of different organisations.

Contributions: One of Taylor's famous experiments was about how to increase the output of a worker loading pig iron to a rail car. Taylor broke the job down into its smallest constituent movements, timing each one with a stopwatch. The job was redesigned with reduced number of motions, effort and the risk of error. Besides, rest periods of specific duration after fixed intervals were introduced and a differential pay scale was used to improve the output. With this intervention of approaching the task in a best possible manner, Taylor increased the output of the gangs which were loading pig iron. From an average of about 12 ½ tons per man per day, the output rose to 47 tons per man per day due to the changes introduced after the scientific analysis of the activities involved[6].

Taylor's ideas, were published in his celebrated work, *The Principles of Scientific Management* in 1911. He understood that 'the right way' of executing the tasks was tied directly to technology and the man-machine relationship on which he focused his R&D. He developed appropriate equipment, improved machinery and high-speed steel through efficient and productive utilisation of science.

Taylor analysed that work was done more efficiently by breaking down it into its constituent parts and by 'specifying not only what is to be done but how it is to be done and the exact time allowed for doing it' (Taylor[7], 1911). He felt that planning and execution also need to be separated because the majority of workers were ill educated and unfit to make important decisions. This view is illustrated in these words: 'One of the very first requirements for a man who is fit to handle pig iron as a regular occupation is that he shall be so stupid and so phlegmatic that he more nearly resembles … the ox… Therefore, the workman … is unable to understand the real science of doing this class of work' (Taylor[8], 1911).

When Harvard University introduced a graduate degree in business management in 1908, the first-year curriculum was developed on the basis of Taylor's scientific management. Peter Drucker[9] has rightly summed up the contribution of Taylor as "On Taylor's 'scientific management' rests, above all, the tremendous surge of affluence in the last seventy-five years which has lifted the working masses in the developed countries well above any level recorded before, even for the well-to-do.

Critical Analysis: Taylor ensured that workers are neither over-worked nor under-worked themselves. He promoted scientific selection of workers so that they perform the tasks they were biologically able to cope with, and the tasks that equalled their skill. To promote the controlled participation of workers in management, he recognized the importance of placing a suggestion box in a machine shop and provision of rewards for good suggestions. The system advocated by Taylor included various wage and bonus incentive plans, an array of techniques for measuring work input and output to appropriately reward high performers.

Taylor also wanted to alleviate poverty by providing more wages to workers by eliminating wastage of time, energy and human ability. But, his methods sometimes had an opposite effect when they fell into the hands of ruthless exploiters of workers. This is the reason why scientific management is often negatively referred to as Taylorism. Organisations employed the time and motion studies of Taylor to extract more work from employees, but they did not place the worker's interest as high as was proposed by Taylor. This led to and misuse of Taylorism and exploitation of workers, resulting in massive unrests and protests by workers.

Taylor was pragmatic and he was a strong advocate of learning-by-doing. Contrary to today's theorising, hypothesis formation, and testing, the one best way came from the workers, not from the managers or owners (Spender and Kijne[10], 1996). Peter Drucker saw Taylor as the creator of knowledge management because the aim of scientific management is to produce knowledge about how to improve work processes and use it for enhancement of productivity.

Taylor was a product of his environment and made major contributions to management thought in accordance of his context, some of which are applied widely even today. According to the *Toronto Globe and Mail,* "re-engineering' guru G. Hamel[1] expressed this view about Taylor's ideas: 'When I am in a mean mood, I call re-engineering '21st century Taylorism'." Taylor taught and practised the three fundamentals that formed the basis of significant management movement decades later:

1. Find the best practice wherever it exists; presently it is practised as benchmarking.
2. Decompose the task into its constituent elements; it is now employed as business process re-design.
3. Get rid of things that don't add value; it is known as 'work out'.

(b) ***Henry Gantt (1861-1919):*** Henry Gantt a mechanical engineer and management consultant, was a follower of Taylor and promoter of scientific management. He believed in application of scientific analysis to every aspect of organisational work to attain industrial efficiency.

Gantt made a significant contribution to the discipline of management through the development of Gantt Charts, which are graphical representations of duration of tasks against progression of time. These charts are used for scheduling multiple overlapping tasks over a time period to manage a project in an efficient manner. They are an excellent tool for a project manager to visualise, schedule and track scheduled and actual progress of projects.

Gantt also focused on the importance of motivational schemes by laying emphasis on rewards for good work rather than penalties for poor work. He advocated that provision of rewards is relatively more effective than the threat of penalties. He developed a pay incentive system with a guaranteed minimum wage and a bonus system for people on the fixed wages.

Gantt[12], one of the pioneers of human relations school of management, designed the 'task and bonus' system of wage payment in 1901 as a variation on Taylor's differential piece-rate system to align the performance with reward. He also focused on the importance of leadership qualities and managerial skills in building an effective organisation[13]. His paper 'Training Workmen in Habits of Industry and Cooperation', published in 1908, gave a unique insight into the human relations dimension of management.

(c) ***Frank (1868-1924) and Lillian (1878-1972) Gilbreth:*** The husband-wife team of Frank and Lillian Gilbreth made a significant contribution to the discipline of management through their emphasis on work methods. They focused on identifying the elemental motions involved in a task and time taken to execute them, and analysed the way these motions were combined to form methods of operation. Their approach focused on designing work methods whose times could be estimated in advance, rather than relying upon observation-based time studies.

Frank Gilbreth, a great admirer of Fredrick Taylor, devoted his entire life and career to 'motion study' and identification of one best way of doing a job. In order to find that best way of doing an activity, Frank and Lillian filmed individual physical labour movements to enable managers break down a job into its component parts and streamline the process by eliminating the wasteful movements. However, this 'one best way' could be replaced when another better way was discovered.

They defined motion study as 'science of eliminating wastefulness resulting from unnecessary, ill-directed and inefficient motion'[14]. The Gilbreths' approach to motion study comprised of the following elements:

(a) Dividing work into the most fundamental elements possible.

(b) Studying those elements separately.

(c) Studying those elements in relation to one another.

(d) Developing time-frames for the studied elements.

(e) Establishing methods of least waste.

One of Frank Gilbreth's first studies concerned bricklaying. He had worked as an apprentice bricklayer. He designed and patented a special scaffolding to reduce the bending and reaching which increased the output by over 100 per cent. He reduced the number of motions of a bricklayer from eighteen to four and a half. However, unions resisted his improvements, and most workers persisted in using the old, fatiguing methods.

The Gilbreths drew symbols on operator charts to represent various elements of a task such as search, select, grasp, transport, hold, delay, etc. They called these graphical symbols 'therbligs' (Gilbreths spelled backwards). In 1911, Frank Gilbreth wrote *Motion Study* and in 1919 the couple wrote *Applied Motion Study*. For his monumental work, Frank Gilbreth is known as the Father of Time and Motion Studies. Lillian Gilbreth was a psychologist and author of *The Psychology of Work*.

Functional Approach or Administrative Management

This approach, advocated by Henry Fayol, laid down the theoretical framework of management by identifying the principles, skills, qualities and functions for effective management. Given below are brief accounts of the works of Henry Fayol and Mary Parker Follett in the field of administrative management.

Henry Fayol (1841–1925): A French industrialist, Henry Fayol is regarded as the father of modern management theory. He developed a conceptual framework for studying management by dividing industrial activities into six groups: Technical, Commercial, Financial, Security, Accounting and Managerial. He further identified five managerial functions to perform these industrial activities as: Planning, Organising, Commanding, Coordinating and Controlling (Fayol[15], 1949).

Fayol was the first management thinker to recognise the need for teaching of management. The 14 principles of management, outlined by Fayol in his book *General and Industrial Management,* are presented below.

- ***Division of Work:*** Specialisation of work results in improvement in the efficiency of operations.
- ***Coupling of Authority and Responsibility:*** Authority is defined as 'the right to give orders and the power to extract obedience'. Responsibility should be coupled with the level of authority to create a degree of accountability. Appropriate amount of authority needs to be provided to enable the execution of responsibility.
- ***Discipline:*** Discipline and order are extremely important if the work has to be executed in an organisational setting.
- ***Unity of Command:*** Employees should receive orders from only one superior.
- ***Unity of Direction:*** This principle states that group activities should be coordinated through a single head and a single plan of action.
- ***Subordination of Individual Interests to General Interests:*** The organisation should make an attempt to integrate the individual's interest with organisational interest, and in the situation of a conflict between the two, the organisation's interest should be given precedence.
- ***Remuneration of Personnel:*** Employees should be paid a fair compensation for their contribution in achieving organisational goals. Additional incentive should be provided for the additional effort undertaken by employees.
- ***Centralisation:*** Only limited authority needs to be provided to lower level employees to make operational decisions, whereas the majority of authority should be with the top management to make all major policy decisions.
- ***Scalar Chain:*** It represents a chain of hierarchical relations from the topmost superior to the lowermost rank in an organisation outlining how the communication will flow in the organisation.
- ***Order:*** In order to attain optimum level of efficiency, it is vital that the right set of people and material are available at right places at the right time.
- ***Equity:*** Managers should be fair and just in dealing with one and all to obtain devotion and loyalty from their subordinates.

- ***Stability of Tenure of Personnel:*** Managers should try to minimise the employee turnover and build long-term commitment and a sense of belongingness among their subordinates.
- ***Initiative:*** Managers should encourage their subordinates to be innovative and initiate new ideas while executing plans. In order to create an environment in which employees come forward to show initiative, a manager needs to develop some acceptance for mistakes that might happen while employees try to be innovative.
- ***Esprit de Corps:*** This principle is based on the philosophy that 'in union there is strength'. It lays emphasis on the spirit of camaraderie or companionship for developing effective teamwork and coordination.

Fayol was the first thinker to outline the following qualities that a manager should ideally possess:

(a) Physical qualities of health and energy.
(b) Mental qualities to understand, learn, adapt and deliver judgement.
(c) Moral qualities like desire to take initiative, willingness to accept, sense of responsibility, feeling of loyalty and dignity
(d) Proper educational qualification.
(e) Specialised knowledge about a particular function of management.
(f) Experiential knowledge from the past work.

Mary Parker Follett (1868–1933): Follett, a social worker, was one of the pioneers of the behavioural approach to management. She was one of the first management thinkers who highlighted the importance of group dynamics with respect to application of power and resolution of conflict. She gave the popular definition of management as 'the art of getting things done through people'. The concepts propounded by Follett included the universal goal, the universal principle, and the Law of the Situation.

(a) The **universal goal** of organisations represents an integration of individual effort into a synergistic whole.
(b) The **universal principle** is a circular or reciprocal response emphasising the importance of feed-back to the sender (the concept of two-way communication).
(c) The **Law of the Situation** emphasises that there is no one best way to do anything; the success of a way depends on the situation.

Bureaucratic Management

The bureaucratic approach of management relies on the development and implementation of rational guidelines for managing the work in an organisation. It advocates the development of organisation structure, hierarchy of authority, rules and procedures and division of roles and responsibilities to manage work in an efficient and effective manner. Max Weber is the main contributor to the bureaucratic approach of management. Given below is a brief account of Weber's work.

Max Weber (1864-1920): Max Weber is known as the Father of Modern Sociology. He advocated set of principles for organizing group effort through a bureaucratic organisation. Weber's ideas of bureaucracy

intended to develop methods that could eliminate managerial inconsistencies that led to ineffectiveness. He wanted to prevent the managerial abuse of power.

Bureaucracy represents an administrative system which is deliberately designed for the accomplishment of large-scale tasks through coordination of individual efforts in a rule-bound, fair and efficient manner. Weber proposed that three types of powers are prevalent in an organisation: traditional, charismatic and rational or legal. He advocated the rational-legal power, that he termed as bureaucracy, as the most logical and rational structure for managing a large organisation.

He propounded the following basic principles of bureaucratic management that could lead to efficiency:

1. Clearly defined division of labour on the basis of functional specialisation.
2. Institution of legal authority with written rules and procedures: organisation is managed on the basis of a system of rules covering the rights and duties of its employees and a system of procedures for dealing with work situations.
3. A well-defined hierarchy of authority to develop an organisational structure that clearly spells out the rights and duties of different positions.
4. The organisation should be managed by technically trained bureaucrats, who are appointed on different positions on the basis of their technical expertise.
5. Selection and promotion of personnel on the basis of their technical competence.
6. Clearly defined career paths to define the career progression on the lines of a well-laid out hierarchy.

Although the term ‘bureaucracy’ has been popularised for referring to those organisations that ‘operate too rigidly by the book’ or government organisations, yet the principles of bureaucratic management are practised in virtually every formal organisation to varying degrees.

Limitations of Classical Schools

This school of management thought focused on the administrative or efficiency aspect of work, but it largely neglected the human element that has a significant impact on the overall outcome of the work performed by employees in a group or organisational setting. This major limitation led to the development of a new approach towards management that focused on the impact of human relations and group dynamics on the performance of organisational tasks.

NEO-CLASSICAL THEORIES

This school of management thought emphasised that work and workers cannot be approached from a purely rational point of view, as advocated by the classical school of management. It highlighted the importance of human element and human relations in determining the level of output of employees in the organisational setting. Therefore, it is also called the ‘human relations approach. According to Neo-Classical theories, management is an art of directing and inspiring people for getting things done through efforts of other people (Mooney and Reiley[16], 1931).

Neo-Classical theories represent management ideologies and approaches that were developed during the period from the 1920s to the 1950s. This approach pioneered by Elton Mayo, Abraham Maslow, Dickson, Dewey, etc. puts special emphasis on interpersonal behaviour which includes leadership, motivation, human relations and the behaviour of people in groups within an organisation. Therefore, it views the discipline of management as a study of social and organisational behaviour of people in groups. Some of the major Neo-Classical theories are outlined below.

Human Relations School: Behavioural Approach

This school of thought emerged in the 1920s in reaction to the limitations of the Classical theories that ignored the human aspects of work in organisations. The predominant characteristic of the theories of management that originated from the human relations approach are as follows:

(a) Employees are social beings hence could not respond 'purely rationally' to rules, chains of authority and economic incentives.
(b) Employees bring their social needs along with them to the organisation; consequently, effective management required a more human-oriented approach.
(c) Emphasis required on the social needs, drives and attitudes of individuals to motivate them to perform in accordance with their true potential.

Reasons for Emergence of Human Relations Movement

- The human relations movement was born in reaction to the alienation of workers at work and the failure of the scientific management approach to raise the productivity levels beyond a point. This school of thought focused on the individual employee to determine how to engage him/her with the associated work and the organisation and raise productivity.
- The studies revealed that human behaviour was also determined by factors other than mere economic and psychological variables. This led to focused investigation and analysis of the human behaviour in the organisation setting through the human relations approach of management.
- Researchers tried to investigate why the positive aspects of rational variables of organisational functioning were not raising the productivity of employees to the desired level.
- The managements of different business organisations could suppress the unions because of rising unemployment and the great recession of 1929. But, this led to a situation where workers' dissatisfaction found individual, personal expression in doing as little as possible for the wages they received and wasting as much material as possible. Attempt of Elton Mayo and his colleagues from Harvard Business School to resolve this problem of 'restriction of output' led to the emergence of the human relations approach of management.
- A need was felt to increase the worker's productivity by reducing absenteeism, employee turnover, etc. To attain these objectives, managers were encouraged to adopt an orientation that could lead to worker's engagement with the organisation.
- Mayo's basic belief was that 'our understanding of human problems should be at least equal to our understanding of its material problems. In the absence of such understanding, the whole industrial structure is liable to destruction or decay'.

- Mayo felt that the social status of workers did not improve with the industrialisation of society. As a result, a conflict was growing in the industry, and there was an increasing danger of the collapse of society. It was felt that the real causes of conflict may be found through investigation of human behaviour, and the situation could be brought under some control.

Outcome of Human Relations Movement

The human relations movement highlighted the following fundamentals about human behaviour, which affect the working of people in a group setting.

- Individual's desire to continuously associate with his fellow workers significantly affects his/her performance at work. Management should take into account this human desire while designing the policies and programmmes.
- Scientific management in its originally proposed form was not accepted by workers.
- The working group sometimes informally determines the output level that an individual worker or the group would produce in a particular time period. This standard is set by them in accordance with what they believe is a fair day's work. This level might be different from what the management expects from workers. It has been observed that workers due to peer pressure adhere to the standard set by the working group even if the management intends to pay according to the output.
- Fair and transparent management can utilise human desire for cooperative activity to create a collaborative atmosphere between management and workers.
- Social understanding and social skill are equally important along with technical competencies. To be successful, the management needs to listen to its employees and should make an attempt to get them congenial work associates.
- Rather than just adding to the overall compensation through rational production-linked incentives, the management needs to improve the overall quality of life of workers.

Contributor to Human Relations Approach

Given below is a brief account of the works of the key proponents of the human relations approach to management.

1. ***Elton Mayo (1880–1949):*** Elton Mayo[17], a leader in the field of industrial sociology, is best known for his empirical research carried out at Western Electric Company's Hawthorn plant between 1927 and 1933. This research popularly known as Hawthornian Studies. The human relations movement began with the Hawthorne Studies. These studies were undertaken to analyse the attitude, behaviour and psychological reactions of workers in on-the-job situations. Elton Mayo identified the 'Hawthorne Effect' – an increase in worker productivity on account of psychological stimulus of being singled out or the bias that occurs when people know that they are being studied.

   Profile: Elton Mayo started his academic career as a lecturer in psychology and ethics at the University of Queensland in 1911 and rose to become Chair in 1919. He received the Rockefeller Foundation grant and worked in the area of general fatigue studies. In 1926 he joined Harvard Business School as a professor of industrial research where he was involved in conducting research studies at Western Electric Company's Hawthorne plant. He retired from Harvard in 1947.

Mayo was a cooperative collaborator and encouraged the exchange of personnel between Harvard and Hawthorne to lay the basis for joint activities. He was a supporter and great spokesman of research. He helped the researchers endure the destructive criticism of their work from inside and outside the company, and to tolerate their own doubts about the value of their work.

Hawthorne Studies: These studies started in 1927 at the Hawthorne plant of Western Electric Company where telephone equipment was manufactured. Although this company was providing good material benefits to its workers, yet there was some dissatisfaction among the workers and their productivity was less than the expectation of management.

The company sought the help of the National Academy of Sciences to find out the causes of low productivity. A team of Harvard Business School researchers—T.N. Whitehead, Elton Mayo (psychologist) and by Fritz Roethlisberger (sociologist)—and company representative William Dickson was constituted to study low productivity. The objective was to determine the effect of working conditions on productivity.

The Hawthorne Studies are significant because they demonstrated the important influence of human factors on worker productivity. The study involved four major phases that are described below.

(a) ***Illumination Experiments:*** These experiments examined the relationship between lighting intensity on the shop floor and employee productivity. To conduct the experiment, experimental and control groups were identified. Lighting was gradually decreased over a period of time for the experimental group while it was kept at the same level for the control group. The following major findings were observed from illumination experiments:

- The researchers were surprised that the productivity of both the groups increased at almost the same rate in spite of the difference between illumination intensity.
- It was only at a stage when the light was decreased to 0.06 foot-candle (roughly moonlight intensity) that the performance in the test group declined because the workers could hardly see anything.
- It was concluded that illumination did not have any effect on the productivity but something else was affecting the productivity of the control group.
- It was inferred that ‘human factor’ played an important role in determining the productivity of workers. But, it was not clear which aspect of human behaviour was affecting the performance level. To have an in-depth investigation of the cause and effect of this phenomenon, the second round of experiments were undertaken.

(b) ***Relay Assembly Test Room Study: HR Interventions:*** These experiments included introduction of a series of HR policy measures for the test group to study their impact on overall productivity. The findings of these experiments, conducted under different stages, are presented below.

- **Stage I:** Before the experiment started, the researchers measured the output of the group of girls working at the plant on whom the experiments were to be conducted for two weeks to know their productive capacity.
- **Stage II:** For the next first five weeks, no changes were made so that the effect on the output on account of being transferred was known.
- **Stage III:** A pay system that aligned the girls’ earnings with their output was introduced.

- **Stage IV:** After eight weeks, two rest pauses of five minutes each at 10 a.m. and 2 p.m. were introduced.
- **Stage V:** The girls were given a light lunch in the rest pauses.
- **Stage VI:** Workday for the girls was reduced by half an hour.
- **Stage VII:** Workday for the girls was reduced by one hour.
- **Stage VIII:** Five-day week introduced in the summer of 1928.
- The interventions till Stage VIII led to a gradual rise in daily output.
- **Stage IX:** In order to rule out the effect of something other than the changes that were introduced, the researchers returned to the original situation: no pauses or lunches and a full work week. The output was measured for twelve weeks. It was observed that the output declined, but not to its original level.
- If the output had been related to the physical conditions at work, then identical conditions would have produced similar output rates. But, the girls' output rose from one phase of the study to the next. Thus, the physical changes appeared to have no effect on the output.
- It was concluded that the changes in the output could be attributed to work attitudes and social relations. It was inferred that the girls' behaviour was not related to the technical but to the social organisation of work.

(c) ***Extensive Employee Interviewing Programme:*** As the worker's attitude was found to be important, an extensive interviewing programme of 21,000 employees was conducted to determine employee attitudes towards the company and their jobs. Supervisors learnt that an employee's complaint frequently is a symptom of some underlying problem on the job, at home, or in the person's past.

(d) ***Bank Wiring Room Study:*** This third set of experiments, that formed part of the Hawthorne Studies, was conducted in 1931-32 comprised of the following interventions:

- A group of 14 men who wired telephone banks were observed in their actual working conditions.
- An observer was assigned the duty to silently take notes on the workers' actions without giving any orders or getting involved in any form of conversation with them.
- The workers were initially apprehensive about the presence of the observer, but they gradually settled into their natural behaviour after about three weeks.
- The workers were free from constant supervision because their foreman was also supervising them from another room and the observer was not interacting with them.
- The observer soon noted that although the workers were paid according to their output, yet they had established an informal daily norm to produce around 6600 units per person. They would undertake their work in a manner that they reached the norm by the end of day.
- It was concluded that the behavioural norm set by the work group had a significant influence over the productivity of the group.
- This experiment confirmed the influence of peer group and group dynamics on the individual behaviour and productivity.

Summary: The Hawthorne Studies highlighted the role of people's social and psychological behaviour in the workplace. The main conclusions of these studies are presented below.

- Through illumination experiments it was discovered that the productivity was not affected adversely in spite of difficult physical conditions at work because of the attention received by the group.
- The relay assembly test room experiment established the fact that the changes in working hours and other working conditions have an impact on productivity.
- The bank wiring observation room experiment found out the effect of social aspects and group dynamics on the productivity of workers in an organisation.
- On the basis of the Hawthornian Studies, Mayo concluded that:
    - Behaviour and sentiments are closely related.
    - Group dynamics significantly affect individual behaviour.
    - Group standards play a part in establishing individual worker's output.
    - Money is relatively a lesser factor in determining the output than other factors, like group standards, group sentiments, etc.

These conclusions led to a new emphasis on the human behaviour factor in the functioning of organisations and the attainment of group goals.

Criticism of Hawthorne Studies: Although these studies have significantly influenced the direction of management discipline, yet they have been criticised by some scholars and researchers due to the following reasons.

- The studies were not of high worth from a scientific perspective because of the following reasons:
    (i) The researchers failed to conduct experiments strictly on scientific lines.
    (ii) As the subjects of research learned to manipulate the researchers, this could have impacted the findings of the studies.
- It was felt that the findings of these studies were too elementary and self-evident. The researchers made use of jargon in order to impress the non-scientists.
- Renowned sociologist Daniel Bell[18], criticised Mayo and other industrial sociologists for 'adjusting men to machines,' rather than enlarging human capacity or freedom. James Hoopes[19] criticised Mayo in 2003 for substituting therapy for democracy.
- It was felt that the Hawthorne findings were based on intangibles, not on hard scientific evidence.
- It was contended that psychological and behavioural studies were not the remedy for the economic problems faced by the labour and working class people.
- It was felt that the researchers considered themselves as 'social engineers' with a strong desire to bring in social change. It was perceived that they manipulated the workers in order to prove their pre-conceived philosophies.

2. ***Abraham H. Maslow:*** The major contribution of Abraham H. Maslow to the discipline of management is the theory of 'hierarchy of needs' (Physiological; Safety or security; Belongingness or

social; Esteem or status; Self-actualisation or self-fulfilment), propounded in 1943. His contention was that people were motivated by a hierarchy of needs. Once the needs of an individual at a specific level are fulfilled, they no longer act as motivators of behaviour and the individual strives to fulfil the next level of needs. This theory provided a strong foundation for motivation research, but has been found to have a good number of limitations as well (discussed in detail in the chapter on motivation).

3. ***Douglas McGregor:*** The major contribution of Douglas McGregor, an American social psychologist, to the discipline of management is the famous X-Y theory of motivation that he proposed in 1960 in his book *The Human Side of Enterprise.* Theory X and Theory Y are referred commonly in the field of management and organisation behaviour. (This contribution of McGregor is discussed in detail in the chapter on Motivation.)

4. ***Rensis Likert (1903–1981):*** An American educator and organisational psychologist, Likert made substantial contribution to the evolution of the discipline of management by undertaking an extensive research on different leadership styles. He developed the Likert Scale to measure and analyse the qualitative phenomenon in managerial research.

Rensis Likert established the University of Michigan's Institute for Social Research in 1946. He remained its director until his retirement in 1970. His studies accurately predicted the performance of corporations. His books on management were very popular in Japan in the 1960s and 1970s and made a significant impact on Japanese organisations.

Contributions: Major contributions of Rensis Likert are described below.

(a) ***The Likert Scale:*** Likert developed survey scales, called Likert Scales, as a means of measuring psychological attitudes in a 'scientific' way. The 1-5 Likert Scales eventually became Likert's best-known work. These scales could capture more information than other competing methods. Using them, qualitative responses could reasonably be interpreted as measurements on a proper metric scale in a manner similar to that of grams or degrees

While employing these scales respondents are requested to state their level of agreement with a series of attitude statements on an ordinal scale in terms of degrees. Each degree of agreement or disagreement is assigned a value, which is usually five (it may also be three or seven) to quantify the qualitative responses.

Advantages of Likert Scale: The advantages of the Likert Scale are described below.

- It is relatively easy to collect information as the respondent has to just select one option from the given options.
- Responses are gathered in a standardised way and can be easily compared with one another and analysed.
- It is not very difficult to construct and is also easy to use by the researchers and respondents.

(b) ***Management Styles:*** The second major contribution of Likert is in the domain of human resources and interpersonal relationship. He conducted extensive research on human behaviour in major corporations around the world and identified four main systems of management style that are described below.

- **System-I: Exploitive-Authoritative**: In this managerial system, major responsibilities are with the top management and the lower levels are merely executionists. Decisions are taken at the top and are imposed on subordinates. In this system, employees are motivated by using threats. As a result, there is very little upward communication and virtually no teamwork.
- **System-II: Benevolent-Authoritative**: Leadership in this managerial system is akin to master-servant relationship and trust. The top management feels responsibility but the lower levels do not. Motivation is mainly undertaken through provision of rewards. There is somewhat upward communication and little teamwork, which is more than the one in Exploitive-Authoritative System.
- **System-III: Consultative System**: Leadership in this managerial system has a considerable but not complete trust in their subordinates. A high proportion of employees at the top management level feel responsibility for achieving organisation goals. Subordinates are motivated through provision of rewards and by involving them in decision-making. Therefore, there is both vertical and horizontal communication and a reasonable level of teamwork.
- **System-IV: Participative-Group System**: Leadership in this managerial system has complete confidence in their subordinates. Motivation is provided through economic rewards on achievement of goals that are set in participation with the concerned employees. Therefore, employees at all levels feel real responsibility for the achievement of organisational goals. There is effective communication across the management levels, and there exists a considerable level of cooperative teamwork.

  According to Likert[20] the fourth system is ideal for a profit-oriented and human-concerned organisation, and all such organisations should adopt this system. A considerable amount of time, effort and pain might be involved in transforming from one managerial system to another, but it is vital to do that if one is to achieve the maximum rewards for the organisation.

(c) ***Effective Work Group:*** On the basis of empirical research at leading organisations in the world, Likert described the following characteristics of highly effective work groups:

- The leader has a major influence in establishing the work culture of the group through the kind of leadership principles and practices that he adopts.
- The leader creates an atmosphere which is supportive and cooperative, but not competitive, among the members of the organisation. In such an atmosphere the member interaction, and problem-solving and decision-making activities can become more effective.
- Suggestions, comments, ideas, information and criticisms all are offered by the members with a helpful orientation and the leader should receive them in the same spirit. Respect needs to be given to the viewpoints of one another.

- The values and goals of the group provide for satisfactory integration of the members. If a value seems to be more important for the group members, it is quite likely that they will accept it.
- There is a strong motivation to make an attempt to influence other members and there is open mindedness to be receptive to the influences made by them.

Limitations of Neo-Classical approach

This approach takes a myopic view of the discipline of management which is much wider a discipline in application than being just limited to the study of group behaviour. This approach ignores managerial concepts such as planning, organising and controlling. Moreover, psychological training alone is not enough to become an effective manager.

QUANTITATIVE OR MANAGEMENT SCIENCE APPROACH

This approach towards management problems emerged during World War II. It emphasises the use of quantitative techniques from the discipline of mathematics and statistics to aid managers in making optimum decisions. A wide variety of mathematical models and quantitative tools have been developed by management scientists for making rational decisions. These models express managerial situations in terms of mathematical equations to develop optimum solutions.

H. Dodge, Ronald Fisher and Thornton C. Fry introduced mathematical and statistical techniques into management studies around the 1940s to give the discipline of management a more quantitative and scientific basis rather than the basis of assumptions. Patrick Blackett combined the statistical theories with microeconomic theory in the 1940s, and laid the foundation of Operations Research in the 'Management Science'.

Limitations of Quantitative or Management Science Approach

Although the management science approach provides the practising manager important tools for making rational decisions with respect to allocation of resources, yet all the managerial processes cannot be rationalised and quantified. This approach is very useful in select areas of management, like inventory management, warehousing and transportation related problems, assigning of manpower or vehicles for the tasks, etc. where a logical and rational process can be applied to the managerial situation to develop optimum solutions. But, this approach fails to provide solution for all facets of management, especially the areas with high level of human element, like leadership, motivation, etc. Managing is not a pure science and hence cannot be completely modelled for all types of situations.

SYSTEMS THEORY AND CONTINGENCY APPROACH: INTEGRATING DIFFERENT MANAGEMENT THEORIES

The systems theory and contingency approaches are the managerial approaches that can help in integrating different theories of management. With an integrated approach, a manager can apply an appropriate managerial technique as per the requirement of the situation and the environmental conditions. An integrated perspective comprising different managerial viewpoints is more applicable to practising managers rather than a narrow view, when they are actually managing people and work.

Systems Theory

This approach, propagated in the early 1960s, believed that organisation is an open system and its components are interrelated and interdependent, which are functioning as a whole. The contributors to the systems approach include: Lawrence J. Henderson, W.G. Scott, Peter Senge, Denial Katz and Talcot Parsons. Business too is a kind of an open system that interacts with its environment. It is composed of inputs from the environment (material or human resources), transformation processes to convert inputs into finished goods (technological and managerial processes), outputs of those finished goods offered to the environment for a consideration (products or services) and feedback or response (reactions from the environment).

According to this approach, an organised enterprise cannot exist in isolation, rather it is dependent on its external environment; it is a part of larger systems such as the industry, the economic system and the society to which it belongs. Even the subsystems within an organisation, like departments, strategies, policies, etc. are related with one another. Any modification in one subsystem has an effect on one or more subsystems. The organisation system is goal-oriented whose subsystems derive their goals from organisational goals on the basis of logical and rational thinking.

The systems theory focuses on the design of the whole system as distinct from the design of its components or subsystems. The synergistic characteristic of the systems approach believes that the total effect is greater than the sum of the effects of the parts taken independently.

The advantage of the systems approach is that it lays emphasis on the interdependencies and interactions of systems and subsystems. But it also has the following disadvantages.

- The systems approach of management studies the organisation at a philosophical level.
- This approach treats all organisations as same.
- It fails to bring in any new or innovative techniques into the field of management.

Contributor to Systems Approach

Chester Barnard (1886-1961): Barnard is widely credited with having originated the 'systems' approach to the study of organisation[21]. Although Chester Barnard was not an 'academician' in conventional sense, yet he has made a significant contribution to the discipline of management. After his retirement as president of New Jersey Bell Telephone and the Rockefeller Foundation, he recorded his insights about management and leadership in the book on corporate leadership, *The Functions of the Executive*, which was published in 1938. This work is regarded as one of the most influential books on management during the pre–modern management era. In many ways, Barnard's book laid the foundation for the management and organisation theory as it exists today (Andrew[22], 1968).

The major contributions of Chester Barnard to the discipline of management are as follows:

(a) ***Concept of Strategic Planning:*** This form of planning deals with the formulation of major plans or strategies after analysing the business environment of an organisation to guide it in the pursuit of its major objectives.

(b) ***Acceptance Theory of Authority:*** Barnard did not agree with the classical view that authority transcends from top to down. He gave a new concept of authority which is termed as 'Acceptance theory of authority' or 'Bottom–up authority'. According to this concept, managers only have as much authority as their subordinates allow them to have. The acceptance theory of authority suggests that authority flows downward but depends on the acceptance by subordinates. According to Barnard, acceptance of authority depends on the following four conditions:

(i) Employees must understand what the manager wants them to do.

(ii) Employees must be able to comply with the directive.

(iii) Employees must think that the directive is in accordance with the organisational objectives.

(iv) Employees must think that the directive is not contrary to their personal goals.

Barnard believed that each person has a zone of indifference or a range within which each individual would willingly accept orders without consciously questioning authority. It is up to the organisation to provide sufficient inducements to its employees to broaden their zone of indifference so that the manager's orders would be obeyed.

(c) ***Concept of Organisation as a Social System:*** Barnard believed that the management system prevalent in an organisation is very much similar to a social system. The Classical concept of organisation, given by thinkers like Fayol, does not fully explain the features of an organisation. According to Barnard, the concept of an organisation can be divided into two parts:

(i) **Formal Organisation**: It is a system of consciously coordinated activities of two or more persons (Barnard[23], 1938). It comes into existence when the following three conditions are met:

- There are persons who are able to communicate.
- They are willing to contribute to an action.
- They make an attempt to accomplish a common purpose.

According to Barnard, the four elements of a formal organisation are:

- A system of functionalisation to enable the people to specialise, in a particular skill, i.e. departmentation.
- A system of effective and efficient incentives to encourage people to contribute to group action.
- A system of power which can make the group members accept the decisions of executives.
- A system of logical decision-making.

(ii) **Informal Organisation:** Along with the formal organisation, there exists the informal organisation as well. Barnard suggested that executives should encourage the development of the informal organisation as complementary to the formal organisation to achieve the following objectives.

- To serve as a means of communication.
- To bring cohesion in the organisation.
- To protect the individual from the dominance and onslaught of the organisation.

(d) ***Functions of Executives:*** Barnard identified three top functions which an executive should perform in a formal organisation. These are as follows:
- Establishment and maintenance of the organisational communication system through formal interactions.
- Securing of essential services from individuals to achieve organisational purpose by hiring and retaining effective employees in the organisation.
- Formulation and definition of organisational purpose in order to motivate subordinates.

(e) ***Motivation:*** Barnard suggested a number of non-financial incentives in addition to financial incentives to motivate the people working in the organisational setting. Prominent among these are:
- Opportunity of power and distinction.
- Pride of workmanship.
- Pleasant organisation climate.
- Participation in decision-making.
- Mutually supporting personal attitudes.
- Feeling of belongingness.

(f) ***Vitality of Leadership:*** A high order of responsible leadership is required to make an executive effective as it is the most important strategic factor in securing cooperation from others. According to Barnard, executive leadership calls for these competencies: high calibre, technological competence, technical and social skills.

(g) ***Organisational Equilibrium:*** It refers to aligning individual efforts with organisational efforts to satisfy the concerned individuals. Affordability of the organisation to satisfy the needs of individuals is required to maintain equilibrium in the organisation. But, the leadership must keep it in mind that this equilibrium is dynamic and not static.

The contributions of Barnard are regarded quite high in management because he advocated for the development of the organisation as an integrated social system. Barnard believed that the discipline of management lacked a comprehensive conceptual framework and was clouded by ambiguous thinking. Through his highly celebrated work *The Functions of the Executive* he made a significant contribution to make the study of organisation and management much more realistic.

Contingency View

In the mid-1960s, the contingency view of management or situational approach emerged. This approach assumes that the managerial behaviour is dependent on a wide variety of elements. The work of Joan Woodward marked the beginning of the contingency approach. Some other contributors to this approach are: Pigros, Myers, Tom Burns, G.W. Stalker, Paul Lawrence, Jay Lorsch and James Thompson. The contingency approach emphasises the development of an appropriate fit between organisational processes and the characteristics of situation because there is no one best way to handle any management problem. It questions the use of universal management practices to deal with different types of circumstances. It advocates that the application of management principles and practices should be made contingent upon existing circumstances (Jay Lorsch[24], 1986).

According to the contingency approach, the behaviour of one subunit is dependent on its environment and its relationship with the other sub-unit that have some control over the sequences desired by that sub-unit (Tosi and Hammer[25], 1974). The important features of the contingency approach are as follows:

- It stresses that there is no one best way of doing a thing. The conditions of contingency or situation will determine which technique would be most suitable.
- Management is situational in nature and managers should prepare objectives, policies, procedures, rules and regulations according to the situation of business.
- Managerial procedures, policies and strategies can be made more effective by adjusting them to the changes in environment.

The contingency approach fails to give one particular answer to a problem. There can be more than one best way to do a thing. Therefore, it can require a lot of creativity and thus can be very complex.

Integration of Management Processes Approach

This approach advocated by Harold Koontz, Heinz Weihrich, Cyril O'Donnell and George R. Terry believes that management is an integration of different managerial functions. Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims (Koontz[26], 2008). Management is a human activity which directs and controls the organisation and operations of business enterprise (Wheeler[27], 1962).

This approach emphasises that there is a central core of knowledge that is applicable to all levels of management and in all types of organisations. This knowledge, concepts and techniques have been derived from other fields such as the systems theory, psychology, sociology and mathematics for applying them to the decision-making analysis to resolve the situations that are faced by managers.

Advantages

- This approach has provided a framework which has been applied worldwide to study the principles of management.
- It makes an attempt to develop management principles, which have been tested through research, and their validity and applicability can be improved over a period of time.

Disadvantages

- As organisations have to work under dynamic conditions, the universal principles suggested by this approach may not always prove to be true in different situations.
- It could not make any additional significant contribution in the field of management.

Developments in Second half of 20th Century

Towards the end of the 20th century, the discipline of business management evolved in the form of six separate branches or specialisations. The business managers started opting for a particular specialisation as a field of study and practice. The career progression of managers started happening in different departments based on these specialisations until they moved into a general management role. These specialisations are: Human Resource Management, Operations Management or Production Management, Strategic Management, Marketing Management, Financial Management, Information Technology Management, etc.

Contemporary Management Viewpoints

Extensive research is being undertaken in the domain of management and new viewpoints or philosophies are regularly emerging in the discipline of management. Some new approaches to the management discipline are as follows:

Management by Objectives (MBO) MBO as a concept was first published by Peter Drucker in his book *The Practice of Management* in 1954. It is an integrated management system to manage the organisation by aligning the entire managerial effort with specific performance goals that are jointly determined by employees and their managers. In this approach, the progress towards accomplishing pre-decided goals is periodically reviewed and rewards are allocated on the basis of this progress. (This concept has been discussed at length in an exclusive chapter titled MBO and TQM: Systemic Approaches to Management.)

Managerial Roles Approach This approach of management is an outcome of an empirical research study conducted by Henry Mintzberg[28]. The research consisted of observations of the role played by five chief executives. It identified ten key roles that are played by managers in their day-to-day life. According to this approach, managers do not practise the functions of management (Planning, Organising, Staffing, Directing and Controlling) as it was described in the management theory. Therefore, it emphasises that management should be approached and learnt in a manner as it is actually practised by managers.

The limitation of this approach is that the sample (five CEOs) used in the study was very small. Secondly, certain activities, identified as the role of manager, were actually non-managerial, whereas some of the key managerial activities were not included in the role of manager.

Quality Management System With organisations giving increasing importance to customer satisfaction through provision of high quality goods and services, quality has emerged as a key integrator of systemic approach to implement the managerial practice. The scope of quality is not just limited to the activities in the production arena of organisation but includes a whole gamut of activities and processes right from the vendors or suppliers to the stage where the final product reaches the customer. Renowned quality gurus W. Edwards Deming, Joseph M. Juran and Phil Crosby have contributed extensively to the development of comprehensive literature for the systematic application of quality in the domain of management not just as a tool but as a strategy, approach and philosophy.

Different approaches for attaining quality that are practised by organisations are as follows:

(i) ***Inspection:*** This approach involves testing and certifying the outcome to determine whether it meets the specifications or not.

(ii) ***Quality Control:*** This approach involves application of certain statistical tools, known as Quality Control (QC) tools, to ensure that the degree of variance in the production process is within the acceptable limits.

(iii) ***ISO 9000 Quality Management System:*** This is a holistic quality management system. It ensures that the issue of quality is approached not just from the product or service angle but also from the organisational perspective. It advocates that in order to attain organisation-wide quality, proper processes for all the activities in business organisations should be documented and each activity should be undertaken in accordance with the documented processes.

(iv) ***Quality of Work Life (QWL):*** This approach takes quality as an attitude. It emphasises that organisations should ensure that employees take quality as a way of life. For this purpose, quality should be integrated in all aspects of the life of the employees inside as well as outside the organisation.

(v) ***Total Quality Management (TQM):*** TQM is the organisation-wide management of quality. This approach is a structured system that deals with the domain of management on the basis of four pillars of Total Quality Management: customer satisfaction (internal and external customers and suppliers), continuous improvement and achieving breakthroughs, total employee involvement and leadership commitment. These fundamental principles form the basis of implementation of various projects in the organisation through cross-functional teams while transforming the organisational culture. (This concept has been discussed at length in an exclusive chapter titled MBO and TQM: Systemic Approaches to Management.)

(vi) ***CMM Quality Level Model:*** This model for incorporation of quality in an organisation is designed according to the needs of the service sector, especially the information technology and computer software sector.

(vii) ***Six Sigma:*** Sigma is a methodology that provides tools and techniques to improve the process capability and reduce defects or variations in any process by constantly reviewing and re-tuning the process through statistical techniques and application of Six Sigma Projects. It derives its name from Six Standard Deviations (Sigma, a Greek letter, that represents standard deviation in statistics) from mean, which actually means it allows for only 3.4 defects per million opportunities. To achieve this, Six Sigma uses a methodology known as DMAIC (Define opportunities, Measure performance, Analyse opportunity, Improve performance and Control performance). The DMADV process (define, measure, analyse, design, verify) is used to develop new processes or products at Six Sigma quality.

The discipline of quality management has gradually evolved into a complete managerial philosophy to manage the working of entire organisation in a manner that can satisfy the needs of its customers (internal as well as external).

McKinsey's 'Seven-S' Framework

This approach towards application of management in the corporate world is based on the conceptual framework developed by McKinsey, a leading consultancy organisation. It is a tool to guide various organisations towards developing effective managerial systems. The seven aspects that characterise this approach are: Strategy, Structure, Systems (also termed as hard 'S's); Staff, Skills, Style (termed as soft 'S's); and, Shared values or Super Ordinate Goals.

The classification of 'S's into hard and soft is based on the relative difficulty of bringing a change with respect to them. The hard 'S's of an organisation are relatively difficult to change than soft 'S's, which can be modified or changed relatively easily. The shared values and super ordinate goals are at the centre of the organisational philosophy and managerial approach. Although the concept is of great practical value, it fails to discuss the different elements of the conceptual framework in detail.

Business Process Re-engineering This approach emphasises that only incremental gains are possible if the organisation goes in for efficiency improvements on a regular basis. It cannot obtain drastic or significant improvements that might be required by the disruptive changes in the business environment. It emphasises the need for basic rethinking, radical redesign and process analysis in order to align the organisation with the changing business environment.

The business process re-engineering approach believes that after a certain time period (depending on the nature of technology life cycles in an industry), there emerges a need for redesigning the entire organisation and its associated processes that are crucial to customer satisfaction in order to achieve the business goals in an effective and efficient manner. But, this is not a very comprehensive approach to management as it neglects important constituents, like management system, external environment and customer needs.

Chaos Models Tom Peters highlighted this approach towards management in his book *Thriving on Chaos*. It suggests that the corporation is a complex adaptive system that interacts and evolves with its surroundings like a living system. This approach believes that living systems operate at their most robust and efficient level in the narrow space between stability and disorder poised at the edge of chaos. It is at this stage that the elements within a system conduct the fullest range of productive interactions and exchange the greatest amount of useful information.

This model advocates the creation of a culture within an organisation that leads to development of manageable flux, where there is optimum balance between stability and change, and between authority and autonomy so that the organisation can naturally evolve with the fast changing business environment. Organisations like Google are practising this model to build a culture that does not resist change but accepts change as a natural phenomenon on a regular basis.

21st Century Approach to Management

In the 21st century, organisations are finding it increasingly difficult to subdivide management into functional categories. With increasing expectations of customers, it is not possible to delight them by working with traditional functional or departmentation approach. Organisations are integrating themselves in a manner that enables them to serve customers as a single entity and not as different departments. Practising managers and academicians are advocating the application of management in terms of various interlinked processes that have to be executed through cross-functional teams.

A large number of information technology tools like CRM and ERP, are enabling this integration through the creation of a single relational database which provides the current and regularly updated information to the entire organisation. At the same time, specialised branches of management theory relating to non profit organisations management, public services management, hospital management, social entrepreneurship, etc., have also evolved.

The management themes like corporate governance, corporate social responsibility, environment management, business ethics, green reporting, social audit, disaster management, data and network security management—that were at the fringes of the management discipline in the 20th century are now gaining centrestage because of the demand of different stakeholders, like investors, regulators, public and customers. Workplace democracy, decentralisation, delegation and empowerment too have become more common, leading to distribution of different management functions among employees and workers. This is necessitated by the criticality to serve the customers in a timely manner.

The advent of the Internet and online business has created a situation where competition is as close as the click of a mouse because plethora of information is available to the customer from all over the globe at virtually zero cost within minutes and seconds. This has necessitated changes in the practice of management by business organizsations. The nature of products and service (on account of digitalisation), character of research, pace of management decision-making, concept of time and geography, criticality of introduction and incorporation of change—all have been significantly affected in this digital age.

In view of the developments discussed above, management has started to become less based on the conceptualisation of classical theory of management and the typical military command-and-control, and more on facilitation and support of collaborative activity. Now, managements deal with the complexities of human interaction to achieve organisational or group goals in an effective and efficient manner.

Points to Remember

1. Drucker developed Management by Objectives (MBO) in 1950s as a comprehensive system-based approach to accomplish organisational objectives that are specific in nature and are established through participation of superiors and subordinates.
2. Classical theories developed in the late 1800s and early 1900s and continued into the 1920s. These can be divided into three general branches: Bureaucratic Management, Administrative Management and Scientific Management. These theories focused on attainment of efficiency and productivity in an organisational setting.
3. Bureaucratic management by Max Weber provided a foundation for rule-based managerial system to prevent managerial abuse.
4. Administrative management by Henry Fayol provided a theoretical framework to develop a systematic theory of management.
5. Scientific management focused on improving efficiency by eradicating the activities that waste time and resources through measurement and analysis of different activities.
6. Neo-Classical theories, comprising the human relations school: behavioural approach, were developed from 1920s to the 1950s in reaction to the limitation of Classical theories with respect to ignorance of human element.
7. Elton Mayo's Hawthorne Studies established the importance of social, psychological and behavioural factors and group dynamics on human performance in a group setting.
8. Chester Barnard's major contributions to the discipline of management are: Concept of Strategic Planning, Acceptance Theory of Authority, Concept of Organisation as a Social System Approach—Formal

and Informal Organisation, Functions of Executives, Motivation, Vitality of Leadership, Organisational Equilibrium.

9. Rensis Likert's major contribution is in the form of extensive research on different leadership styles, development of the Likert Scale to measure and analyse the qualitative phenomenon in managerial research and defining an effective work group.
10. The systems theory approaches business as an open system that interacts with its environment.
11. The contingency approach assumes that managerial behaviour is dependent on a wide variety of elements, so there is need to develop appropriate fit between organisation processes and the situation.
12. Towards the end of the 20th century, the discipline of management evolved in the form of six separate branches or specialisations: Human Resource Management, Operations Management, Strategic Management, Marketing Management, Financial Management and Information Technology Management.
13. Some contemporary management viewpoints are: Management by Objectives (MBO), Quality Management System, Business Process Re-engineering and Chaos Models.

Review/Discussion Questions

1. Describe the evolution of managerial practice prior to the Industrial Revolution.
2. How did the background literature on management evolved in the 18th and 19th centuries?
3. Outline the major management theories of the 20th century.
4. Explain the basic fundamentals, advantages and disadvantages of scientific management.
5. Highlight the contribution of F.W. Taylor to the discipline of management.
6. Present a critical analysis of the fundamentals and principles of scientific management.
7. Highlight the contribution of Henry Gantt and Gilbreths to the discipline of management.
8. Highlight the contribution of Henry Fayol to the discipline of management.
9. Present the principles of bureaucratic management outlined by Max Weber.
10. What are the basic fundamentals and principles of the Neo-Classical or human relations approach to management?
11. What are the contributions of Elton Mayo to the discipline of management.
12. Explain in detail a critical analysis of different experiments that constituted Hawthorne Studies.
13. Discuss the contributions of Rensis Likert to the discipline of management.
14. What are the fundamentals and limitations of quantitative or management science approach?
15. Discuss the contribution of Chester Barnard to the discipline of management.
16. Outline the developments in the management discipline in second half of the 20th century and select contemporary management viewpoints.

Field Exercises/Class Exercises/Group Projects

1. Relate the historical or mythological literature or religious scriptures to the domain of application of management to determine what learning these great works have for a modern-day manager.
2. Relate the principles of Scientific Management and the findings of Hawthorne Studies with the Indian context.

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Case Study

Evolution of Management with Organisational Growth

Mr. and Mrs. Shivkant along with their only son Mohit were sitting in the serene lawns of a tourist resort in Kasauli. They were accompanied by a professional consultant, Dr. S.K. Singh, who has now become their family friend. They were there to deliberate upon the managerial approach with respect to their management institute.

For a moment, Mr Shivkant went into a reverie about his professional life so far. He clearly remembered that right from the early childhood he was a hard worker. He was very ambitious and a firm believer in doing whatever was required in order to be successful. So, when others were not that forthcoming, he would take the onus of responsibility and would do almost everything himself. These virtues made him a sort of misfit in government service that he joined after his graduation in science. After a brief stint, he felt he was under-utilising his potential and could do a lot if he does something on his own. He took a tough decision and resigned from the stable and secure government job.

He was good in science and mathematics, so he decided to start a coaching centre in the garage of a rented home in a suburb of Chandigarh in 1974. He was proficient in teaching physics and soon a good number of students joined tuition at his academy. A self-made man with a strong belief in making things happen, Shivkant started becoming more and more confident about the new venture. Soon his wife also left her government job and joined him in the academy.

As both were now dependent on the earning from the academy, it was important that the cost should be kept to the bare minimum because initially their earnings were not much. They refused to hire even the maids and sweepers and focused on expanding the academy by doing almost everything on their own with full commitment and enthusiasm. As a result, they were able to survive the tough time that almost every entrepreneur faces. Their struggle taught them the importance of values, like hard work, dignity of labour, complete commitment to work, extreme cost consciousness, hard bargaining and negotiation. These efforts were handsomely rewarded, and over a period of time they had a flourishing academy with hundreds of students. Being thriftly, they saved a lot of money which they invested in acquiring a 2.5 acres piece of land in the heart of Chandigarh.

With the privatisation of professional education came a turning point in the lives of Mr and Mrs Shivkant. They had requisite land and became one of the pioneers in the city to start a professional management institute. He managed it with the same values of thrift, hard work, sincerity and complete devotion. Both husband and wife were completely dedicated to their role and fully engrossed in managing the institute.

They hired reasonably competent staff and a director for the institute. But, Mr. and Mrs. Shivkant had a strong belief that due to over two decades of successful experience in institution building, they were in the best position to manage the affairs of the institute. They did not want to leave the management of the institute in the hands of somebody else, but were not themselves eligible to take on the role of the Director as they lacked requisite qualification as per the provisions of the All India Council for Technical Education (AICTE), the regulator for the technical education sector.

Now, Mr and Mrs Shivkant were in a catch-22 situation—they couldn't leave the management of the institute in the hands of others but they themselves were not eligible to head it. Even their son Mohit, who was a qualified MBA, lacked requisite experience to head the institute. It would take few more years for him to be in a position to head the institute as per the conditions of the regulatory body. As a way out of to this situation, Mr and Mrs Shivkant took the role of virtual heads of the institute by appointing a dummy director. As they knew their job well and could get the things done at the minimum possible cost, they could manage the institute quite well with this arrangement.

Everything was going perfectly fine. The institute emerged as a reasonably good brand name in the region. It could boast of highest returns on investment at least possible overheads with highly efficient operations. But, there arose a problem. Parallel to their institute, other colleges started flourishing at a fast pace. In no time, some small-time colleges actually developed into private or deemed universities with thousands of students.

The institute of Mr Shivkant was still doing reasonably well, financially as well as academically. But, due to the rapid growth of other institutions, it was being relegated to the position of a small institute. Although profits were quite good, yet economies of scales were highly in favour of other institutes because large base of their students and varied courses. These institutes could invest lot of money to acquire good faculty resources and for brand building.

Mr and Mrs Shivkant, on the one hand, were satisfied with what they had achieved from a humble beginning of a coaching academy. But, on the other hand, they were feeling helpless in view of their inability to cash on the tremendous growth opportunities which other promoters with little background in education business were making good use of. This thought was constantly bothering them.

Dr. Singh, the consultant, put a gentle hand on the ageing shoulders of Shivkant and woke him up and said, ‘Sir, what we should do now?

Questions for Discussion and Analysis

1. Comment upon the personality and traits that Mr Shivkant possesses as a leader and as a manager.
2. Identify the challenges that the Shivkant family is facing.
3. Identify the reasons why in spite of all the strengths the Shivkant family is bothered about the management of their institute.
4. Do you think experience is a great teacher? Explain.
5. What should have been the managerial approach of Mr Shivkant with respect to managing the institute over a period of time?

Chapter 7

Personal Qualities of Effective Manager

The key is not to prioritise what's on your schedule, but to schedule your priorities.

—Stephen R. Covey[1]

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand the practices adopted by effective managers
- look into the managerial mindsets of effective managers
- comprehend personal qualities of an effective manager in terms of: professional traits, consistent routine habits and time management

INTRODUCTION

Managers are expected to understand and employ different managerial practices discussed in detail in the preceding chapters. But they must also develop certain personal habits to enhance their efficacy. These habits may not be directly related to the execution of the task at hand but have a significant impact on the people that a manager is managing and the outcome of the ongoing work.

The desire to inculcate certain habits that enhance the managerial capability has to come from the manager himself/herself. Developing and practising these essential personal habits or qualities can help a manager develop a consistent style of managing that gradually turns into a personality trait. The experience gained in the process of developing these habits help an individual become an effective manager.

PRACTICES ADOPTED BY EFFECTIVE MANAGERS

Like every discipline, effectiveness can be learned and should be learned. It requires an understanding of what needs to be done and then doing that systematically. On the basis of formal and informal research and consultancy experience spanning over 65 years, Drucker[2] (2004) identified nine practices that he found common in most of the effective executives. These practices can be categorised under the following three heads:

Practices to Become a Knowledgeable Executive

These practices facilitate the development of knowledge-based competency in an executive. These are of the following three types:

(a) ***Asking "What needs to be done?":*** This practice does not refer to what the manager wants to do represent what should be done in accordance with the situation. It's about finding what should he/she do in a given situation. So executives should ask themselves and others about the appropriate action in a given situation, find the right answer and then go ahead to do that.

(b) ***Asking "What is right for the enterprise?":*** Effective executives prefer to do what is right for the entire organisation, not just what is beneficial individually to either the owners or the stock price or the employees or the executives. They strongly believe in the philosophy that a decision that is not right for the enterprise will also not be right for any of the stakeholders in the long run. They also understand that the decisions that are right for the key stakeholders, such as owners or executives, may or may not be right for the organisation in the long run.

(c) ***Listening first and speaking last:*** In order to be more knowledgeable and get a true perspective of what others think, the executive needs to listen first and speak last. If the leader speaks first, others may not share their original thoughts that are in contrast with the leader's opinion. They may prefer to just toe the line of the leader, to avoid spoiling their relationship with him/her. In this case, the leader would be deprived of upward communication in its true spirit, thus losing important input on key issues that he would have got from the frank views of others.

Practices to Convert Knowledge into Action

The following practices enable a manager to optimally transform the acquired knowledge into productive actions for achieving desired results:

(a) ***Developing action plans:*** Effective managers develop their action plans for the near future by asking questions, like: What contributions do the enterprise or my role expects from me over the next one to two years? What results should I commit to deliver by what time?' Before giving the final shape to their action plan, managers take into consideration various facets of the proposed action plans, represented by these questions: 'Is this course of action ethical? Is it legal? Is it acceptable within the organisation? Is it compatible with the mission, values and policies of the organisation?'

Although plans do not guarantee that finally everything will happen as planned, yet without an action plan an executive could become a prisoner of events. He has no way to determine which events really matter and which are not significant, how far has he come, and what is yet to be accomplished? Napoleon strongly believed that no successful battle followed its plan, yet he planned all his battles, much more thoroughly than any other general before him.

(b) ***Taking responsibility for their decisions:*** Effective executives take responsibility and ownership for their decisions. They clearly understand that a decision cannot be made until the people involved clearly understood the following aspects of the proposed decision:

- The name of the person who would be accountable for implementing the decision.
- The deadline for implementing the decision is clearly determined and is known to all concerned.
- The people who are likely to be affected by the decision are aware of it. They understand and approve of it or at least are not strongly opposed to it.
- The people who have to be informed of the decision, even if they are not directly affected by it, are apprised of it.

(c) ***Taking responsibility of communicating what is expected:*** Effective managers ensure that all concerned are made aware of what is expected of them to enable them perform their roles as desired.

(d) ***Focusing on opportunities rather than problems:*** Effective managers regularly monitor the business environment of the organisation for the changes that occur and ask, 'How can we make use of this change as an opportunity for our enterprise?'

Practices to Make the Whole Organisation Feel Responsible and Accountable

Effective managers very well understand that they are responsible and accountable for their decisions. However, they also make everybody around them feel a sense of responsibility and accountability for their actions by adopting the following practices on daily basis:

(a) ***Think and say 'we' rather than 'I':*** Effective executives know that the ultimate responsibility rests with them. They relate themselves with the organisation and think about the needs and the opportunities of the organisation before they think of themselves.

(b) ***Conduct productive meetings:*** They understand the importance of meetings to communicate and build commitment for the organisation's mission, goals, objectives and tasks. To facilitate a focused and fruitful discussion with the staff, they approach and prepare for different types of meetings in different ways. They encourage wider participation in the meetings that they are chairing by preferably listening first and speaking last.

MANAGERIAL MINDSETS OF EFFECTIVE MANAGERS

While developing a curriculum for a master's programme in management for practising managers, Gosling and Mintzberg[3] identified the following five aspects of managerial mindset that need to be developed in order to become effective managers:

(a) ***Managing Self: The Reflective Mindset:*** Managers need to occasionally step back and reflect thoughtfully on the events, happenings and their experiences. In his book, *Rules for Radicals,* Saul Alinsky[4] stresses the point that events or happenings become experience only after they have been reflected upon thoughtfully, related, analysed and absorbed to develop some generalisations.

(b) ***Managing Organisations: The Analytic Mindset:*** Managers need to regularly analyse their situation by breaking it up into component parts for in-depth analysis. This competence enables them to manage their organisation according to the situation in an effective and efficient manner.

(c) ***Managing Context: The Worldly Mindset:*** Organisation is an open system that is significantly affected by different constituents of the business environment. Effective managers need to make an effort to influence the context whenever it is possible, and if it is not possible then align the organisation functioning with the context.

(d) ***Managing Relationships: The Collaborative Mindset:*** This mindset refers to developing a management style that can engage others with mission, goals and tasks of the organisation. It can be done by empowering the teams and the individuals who are competent and committed.

(e) ***Managing Change: The Action Mindset:*** Effective managers have a bias towards action. They are action-oriented, proactive individuals who try to make the best use of the available opportunities and minimise the impact of threats. They constantly take some action or another to augment their strengths and minimise their weaknesses.

Minds of Future Managers

Howard Gardner[5], a leading modern thinker and a Professor at Harvard, identified the following five minds that managers would need to develop in order to be relevant in the future.

(a) ***Disciplinary Mind:*** In order to lead others, it is important that the present-day manager must master a basic discipline. According to Subroto Bagchi[6], the co-founder of Mindtree, 'mastering any discipline requires a decade of dedicated practice; professional qualification alone does not make a complete professional.'

(b) ***Synthesising Mind:*** Effective decision-making on major issues requires an interdisciplinary approach along with mastery in one basic discipline. A professional should be competent enough to synthesise the knowledge of different disciplines to solve practical problems.

(c) ***Creative Mind:*** An effective manager needs to be creative enough to conceptualise something into a totally different thing.

(d) ***Respectful Mind:*** An effective professional needs to develop a respectful mind so as to work successfully in a team setting and collaborate with other professionals in solving such problems or executing such projects that require interdisciplinary approach.

(e) ***Ethical Mind:*** An effective professional is competent and willing to successfully execute an assignment on his own without scrutiny and supervision by others.

PERSONAL QUALITIES OF EFFECTIVE MANAGERS

Many people think it is easy to be a manager. But, being an effective manager takes a lot of practice. To manage other people effectively, a manager needs a battery of qualities that are not easily acquired. The personal qualities that are crucial for a manager to be effective and can significantly contribute to his/her credibility as well as personal and professional growth are described below.

1. ***Integrity:*** A manager should say what he/she really intends to do and then do that. A manager needs to possess candour, sincerity, transparency and honesty. Being honest is essential to earn the trust and respect of the people one works with. James Kouzes and Barry Posner[7] conducted a series of studies on thousands of managers to identify the personal characteristics that people admire, look for, and expect in the persona of those whom they are willing to follow. The most frequently mentioned characteristic was 'honesty'. People want a leader who is truthful with them and who can be trusted. They judge honesty less from one's communication and more by observing one's behaviour. The important touchstone used by subordinates to measure honesty is: 'Does a manager actually do, what he/she says that he/she is going to do?

   Sam Walton, founder and chairman of Wal-Mart Stores, told his employees that if they achieved their profit objectives, he would put on a hula skirt and dance down the Wall Street. They did it. And, he also did what he promised to do. This type of behaviour and commitment to the promise sets an example that honesty and integrity are extremely important for one and all irrespective of the position one holds. A leader must be the first to show the way for others to follow by setting an appropriate example.

   Managers must make a serious attempt to project themselves as persons who are helpful, kind and compassionate with those with whom they work. They should develop an optimal balance and harmony between the people factor and the results that they are looking for. A manager needs to possess sensitivity towards the needs and feelings of others and should visualise how his/her actions/decisions are likely to affect the people involved. This does not necessarily mean changing or altering the decision according to the feelings of people, but this sensitivity would help a manager develop a strategy to take care of the feelings of others.

2. ***Intelligence and Desire to Update and Develop:*** Managers need to constantly update themselves so that they and their skills remain relevant over a period of time. In the present-day knowledge-based economy, even human beings as a resource can become obsolete and unwanted if they do not constantly update themselves or constantly sharpen their edge.

   Managers need to make the maximum of experiential learning and couple it with self-introspection-based personal and professional development. They must constantly ask themselves questions, like:

   - Am I capable of being a good leader?
   - What is there in me that makes me a good leader?
   - What is hindering me from becoming an effective leader?
   - Why should people be led by me?

   To the question, 'Why should people be led by me?' the answer could be: 'People would be happy to be led by me provided I add significant value to their life'. And, it is not possible to add value to the life of others without being relevant and updated.

Managers should also try to inculcate reading habit and devote some time regularly to read about the latest research and happenings in their field of specialisation. This knowledge enables them take better decisions and help in the development of their subordinates and earn their respect.

3. ***Energy and Confidence:*** Managers must possess enthusiasm and drive to act even when things are not happening as per their expectations. This positivity must be backed by persistence, stamina and energy to continue efforts in the pursuit of desired results. It is aptly said, 'When going gets tough, the tough gets going'. High energy level plays a big role in enabling a manager perform against odds.

   Leadership and management are not a popularity contest. Leaders are expected to take tough decisions to bring a turnabout in adverse situations. These decisions may not be liked by one and all. Therefore, managers need to develop confidence for making hard choices or taking tough decisions in the long-term interest of the organisation.

   Confidence does not automatically produce future success, but it gives the people a will to continue their effort when things are difficult. This increases the probability of their attaining the success. Managers make their people confident by creating opportunities for them to take small steps and experience small incremental wins. This leads to generation of confidence to make an endeavour for bigger successes.

   So, if managers have a grand strategy or a daunting long-term goal, they can divide it into small goals that their people are confident of accomplishing. Attainment of these small successes boosts their confidence to take on other tasks in the future with a belief that they can also be done.

4. ***Not Passing the Buck:*** Managers must be ready to accept personal responsibility for their decisions and should be willing to suffer the painful consequences of unpopular decisions[8]. They should not have the habit of passing the buck to others to save themselves. Such a tendency damagers their credibility, and they lose the respect of their subordinates.

   A manager should share the credit for accomplishments with his/her team members and subordinates. He/she should never take the credit for the work of others. This helps in building effective teams and strengthening the superior-subordinate relationship which goes a long way in enhancing the performance and productivity.

5. ***Appearance:*** A manager needs to look like a professional. The dress and overall appearance helps in commanding respect from others. A manager should 'dress for success'. Appropriate business attire imparts a manager the appearance of a sincere professional and helps in winning the respect from others.

6. ***Punctuality:*** By being punctual for meetings and appointments, a manager indirectly communicates to others the importance that he/she associates with time and deadlines. When a manager leads by the example of being on time, others are most likely to follow. This sets the right tone for meetings and tasks get accomplished in time without unduly wasting the time of others.

   In case of appointments, the punctuality, shown by managers, presents them as thorough professionals who are serious about their job and can be trusted and relied upon. Respect for deadlines and the passion to meet them brings in the desired discipline and commitment to accomplish a given task as per the criterion set by the management or the customer.

7. ***Effective Communication:*** Managers need to employ effective verbal and non-verbal communication. They should use clear and concise communication with everyone. It should preferably be devoid of jargon and complex terminology. How well a manager passes on information and instructions for easy understanding of others is of paramount importance for his/her reputation and success.

   Managers should always be conscious of their body language as their subordinates derive lot of inferences from it. They should ensure that appropriate and desired tone and feelings are communicated through the gestures and body language. They should try to convey a positive image through body posture, hand movements, eye contact, etc. A positive and confident appearance leaves a good impression on the superiors and subordinates of a manager. It helps in building accessibility, confidence and trust.

   Good managers are expected to treat individuals with respect and dignity while coordinating their activities. They should treat other people the way they themselves like to be treated. However, they must not surrender to those wishes of people that may force them to go out of their way.

   It is important for managers not be leave unanswered the questions, asked by seniors and subordinates, during a meeting. If the manager does not know the answer, then he/she can promise to return with an answer or for discussion on the matter at an agreed upon time. Subsequently, he/she needs to make a serious effort to find out the appropriate answer and report it accordingly.
8. ***Participatory approach:*** Wherever possible, managers should attempt to enlist the assistance of others when making important plans or decisions. This participation not only provides valuable ideas but also elicits the commitment of others to the concerned issue.
9. ***Effective control:*** A manager should administer discipline fairly and in private. He/she should also ensure that others are able to perceive his/her administration of discipline as just and transparent. Whenever possible, a deserving individual should be praised in front of the people who matter to him/her. However, disciplinary action must be taken in private until or unless the situation demands otherwise.
10. ***Focus on the strength of subordinates:*** Great managers are familiar with both the strengths and weaknesses of their subordinates. But they focus on the strengths of the subordinates. They find out what is distinctive about each of their subordinates and then capitalise on it, whereas average managers treat all their subordinates alike. Identifying and capitalising on each person's uniqueness builds a strong sense of teamwork because it helps people appreciate different skills of one another. Great managers also reinforce self-assurance in their subordinates by focusing on their strengths and telling them about the contribution of a particular strength in their success. Research by Albert Bandura[9], the father of social learning theory, has shown that self-assurance or self-efficacy is the strongest predictor of a person's ability to set high goals, to persist in the face of obstacles, to bounce back when reversals occur, and, ultimately, to achieve the goals the person sets.
11. ***Time Management:*** Effective managers know how to manage time, by simply taking out the time to plan it. To make the best of their time, they plan to spend it fruitfully. However, it is important to understand that in some cases even a good time management plan can be sidetracked by unplanned events or distractions, but that does not undermine the importance of time planning. By

following the fundamentals mentioned below, one can manage one's time effectively as well as succeed in adhering to daily routine.

(a) **Make time plan realistic**: If a manager works eight hours each day, then he/she can plan for two key functions in the morning session and two in the afternoon. This will provide him/her with time to manage unplanned activities that will require immediate attention almost everyday.

(b) **Plan for a week, not for a single day**: It may not be possible to spend the entire day exactly as planned because the manager has to attend to a number of urgent but unplanned tasks. In order to overcome this limitation, the manager can plan for the entire week so that if some important activity could not be completed on a scheduled day, it can certainly be completed within that week. One advantage of planning for a week is that it balances an overloaded day with the under-loaded one within the same week without any adverse effect on performance and planning.

(c) For more urgent activities, the manager should not wait to plan, rather he/she should deal with them immediately and then adjust the schedule as required.

(d) For recording the time plan, a bound day planner works best. It can easily be used in conjunction with a computerised calendar if necessary.

(e) Each mid-morning, the manager may take twenty minutes for himself/herself. Everyone should be made aware that he/she should not be ideally disturbed during this time. He/she can have a cup of tea/coffee and analyse what has happened so far and review the schedule for the rest of the morning session. Similarly, another twenty-minute break can be taken in mid-afternoon to analyse what has happened since mid-morning and review what is planned for the rest of the day. During this review, a look can also be taken on what is planned for the following day, and the schedule can be readjusted if need be.

CONCLUSION

There is no simple process to help an individual become an effective manager; one must continually practise to enhance one's personal and professional skills. The ability to be aware of one's strengths and shortcomings and the desire to develop professionally by augmenting one's strengths are essential for one's success in effectively managing people and work.

There are many different opinions with respect to what a manager actually is: a facilitator or a coach or a mentor. One opinion is that a manager should be authoritative or controlling. In reality, a manager first needs to be a leader and then a facilitator or a coach or a mentor. He/she must be authoritative as well as controlling if the situation requires him/her to act in that manner. The manager should be enlightened enough to understand when to perform which role in order to get the things done through people in an effective and efficient manner.

When the right mix of personal characteristics and sound management fundamentals are properly practised, the manager really becomes effective. To sum up, an effective manager is not a one-man band; he/she is like a conductor of the orchestra, who keeps every one on the same page and in key. He/she understands that independent decisions, even if they are good, are actually a means of isolating team members, and this isolation can be detrimental for the organisation in the long run.

Points to Remember

1. According to Drucker (2004), the practices adopted by effective managers can be categorised as: practices to become a knowledgeable executive; practices to convert knowledge into action; and, practices to make the whole organisation feel responsible and accountable.
2. According to Gosling & Mintzberg (2003), the managerial mindsets of effective managers can be classified as: managing self: the reflective mindset; managing organisations: the analytic mindset; managing context: the worldly mindset, managing relationships: the collaborative mindset; and, managing change: the action mindset.
3. Key professional traits of a manager are: appearance, integrity, positive personal image, intelligence, desire to update and develop, energy and confidence, punctuality, effective communication, not passing the back, participatory approach, effective control, time management and focusing on the strengths of subordinates.
4. Effective managers are aware of their strengths and shortcomings, and develop professionally by augmenting their strengths.
5. A manager first needs to be a leader and then a facilitator or a coach or a mentor. He/she must be authoritative as well as controlling if the situation requires him/her to act in that manner. The manager should be enlightened enough to understand when to perform which role.
6. An effective manager is not a one-man band, rather he/she is like a conductor of the orchestra, who keeps every one on the same page and in key.

Review/Discussion Questions

1. Outline the practices adopted by effective managers.
2. What are different managerial mindsets of effective managers?
3. What are the personal qualities of an effective manager?
4. How can managers manage their time effectively?

Field Exercises/Class Exercises/Group Projects

1. Each student can identify an individual in his/her social circle, who is considered to be reasonably successful in the domain of business. The individual should be interviewed on different parameters suggested in the chapter to understand his/her qualities that contributed to his/her success.
2. Students should be asked to maintain a log to record how they spend a particular day. These recordings should be used as live case studies of time utilisation patterns of the students to suggest how they could have made a better use of the available time.
3. Students can set a benchmark rating of different managerial skills cited in the chapter and develop a personal profile of these skills to identify the gaps. They need to develop strategies for improvement to reach ideal position and set timelines to achieve that.

On the Internet

1. Log on to http://www.projectmagazine.com/leadership-skills/410-effective-management to learn the characteristics of Effective Management.
2. Visit http://www.projectsmart.co.uk/top-10-qualities-project-manager.html to learn top 10 qualities of a Project Manager.

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Case Study

From Household Kitchen to Rs. 200 crore Turnover

When a hobby becomes a career, success is not far away. It all started with a small ice cream hand churner in the kitchen of Mrs. Rajni Bector one of the first women entrepreneurs in north-west India. Famous as the 'Tata iron' of

Ludhiana for her iron will and dedication to work, she transformed her hobby into a Rs. 200 crore (US $ 25 million) food business in a span of 25 years, with her faith and motto "work is worship".

She could easily have been like any other housewife of an affluent, orthodox business family of Punjab. But she was destined to do something great. Her interest in cooking innovative dishes went beyond the four walls of her home to a high business level. Soon her family quitted their traditional well-established fertiliser business of 107 years and joined her. (The reverse of it normally happens.)

Rajni's ice creams became a hot favourite among her friends and they started asking her to make them for their parties. The first turning point in Rajni's life came when on the insistence of her friends, she put up an ice cream stall at a club fete in 1974-75. It was pitted against Kwality, and she gave Kwality stall a run for their money. That was the first time when she thought of doing it at a large scale. With this began her business journey. She got her company registered and the brand 'Cremica' was born. After that, there was no looking back.

For Rajni, excellence; and perfection, not profit, were the driving force from day one. But, growth and profit followed her all the way. The list of her renowned institutional customers included McDonalds, Cadbury's, ITC, Britannia, and the Government of India for UN food programmes in Afghanistan. Now Mrs. Bector's Cremica has a couple of units with her partners that include the names like EBI foods, UK, Quaker Oats, USA. Under the Cremica brand are produced a host of products, like bread, bread crumps, biscuits, bites, mayonnaise, sauces, pizza sauces, candies, etc.

Rajni's attitude to experiment and bring out new flavours was something new and it was well received. Innovation and strong emphasis on quality made institutions like McDonalds buy 1 lakh buns a day from Cremica and sourcing 60 per cent of their input from her.

Nominated for the 'Economic Times Award for Women Entrepreneurs of 2004', Rajni was among the 10 contestants chosen from the corporate world of India. Presently, she is giving employment to around 2000 workers in her state-of-the-art plants. These plants use the latest equipment and technology under the guidance of highly qualified technical experts.

Rajni's success story started from her kitchen, moved to the backyard of her home before finally entering the corporate arena. Among the key factors that contributed to her success were: bringing in innovations, participation in food fares in Dusseldorf, reading a lot of literature on the subject, and learning from association with large corporate buyers and manufacturers.

As outsourcing of manufacturing by most of food and retail giants is the order of the day, Cremica is emerging as a rising star of Indian manufacturing in food business. This all started with nothing but labour of love.

Questions for Discussion and Analysis

1. What lessons can you learn from this success story of a housewife transforming her hobby into a great business organisation?
2. What challenges she might have had to face to attain this well-deserved success?
3. What factors could have led to such a magnificent success for Mrs. Rajni Bector?

Section C

Functions of Management

The McGraw-Hill Companies

Chapter 8

Planning

Take hold of the future or the future will take hold of you.

—**Patrick Dixon in Futurewise**[1]

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand the nature, importance, purpose and types of planning
- appraise the assumptions and essentials of effective planning
- understand the steps in formal and strategic planning process
- comprehend the nature, purpose and classification of plans
- appraise the relationship between planning and control
- know why people avoid planning
- comprehend select applications of planning and the role of computer software in planning

INTRODUCTION

Planning is the most basic and pervasive management function. It is undertaken by managers at all levels. Although it is classified as a distinct managerial function, yet it is integrated with all other management functions and their success greatly depends upon the performance of planning activity. The need for planning arises the very moment a business venture is undertaken, and the success of an organisation throughout its lifetime depends on the rigour and thoroughness of the business plan and its optimum execution.

Planning is a systematic attempt to look into the future to foresee opportunities by forecasting the likely possibilities and scenarios at different times, and then devising ways, means and actions to take advantage of them. This is done with an objective to bridge the gap between the present (the current reality) and the desired future (vision) where an organisation or individual intends to reach.

Planning is also defined as a process that involves chalking out a future course of action for accomplishing a purpose. Proper planning helps in fulfilling the purpose by making an attempt to utilise the available time and resources in an efficient and effective manner. Therefore, planning is an exercise that determines in advance:

(a) the **ends** (What is to be done or achieved?)
(b) the **means** (How it is to be done?)
(c) the **timing** (When to do what?)
(d) the **responsibility** and **accountability** (Who should do what?)
(e) the **reason** (Why it should be done?)

In operational terms, planning is a process concerned with selecting the mission, goals or objectives for the future and deciding on the actions, tasks and resources to achieve them. It requires decision-making to choose from a series of alternative future courses of action the most appropriate one. Thus, planning transforms the options and alternatives into a blueprint or a road map (plan) for future action through selection and decision-making.

Planning can be done for the entire organisation (Corporate Planning) or a business unit (Business Planning), or a division (Divisional Planning) or a department (Departmental Planning) or at the level of an individual manager or employee (Personal Planning).

CHARACTERISTICS OF PLANNING

These following characteristics of planning make it an essential activity for every organisation in order to survive and grow in the competitive environment.

- ***Planning is a primary function of management:*** It is the first or fundamental function of a management and is performed for almost every activity or function including organising, staffing, directing and controlling at every level of the organisation. Therefore, planning is also called the foundation of management.
- ***Planning is an intellectual process:*** Planning by nature is an intellectual process. It involves creative thinking, imagination, foresight, evaluation, sound judgment and decision-making about different activities that are required to be performed to create a desired future state. Exhibit 8.1 makes it clear that how by applying ingenuity a problem can be transformed into an opportunity. Planning is not just a one-time activity. Rather, it is a continuing organisational process as it includes creation, refinement and maintenance of a plan and its integration with other plans.

Exhibit 8.1 Problems are Opportunities Too!

Every March, between 1980 and 1985, Chandrakant and Anil Sanghvi couldn't find a crane they could rent for the month at any cost. It was the peak period for their marginally profitable business of running a steel stockyard on the outskirts of Pune. That's when the Sanghvi brothers realised that they were probably in the wrong business and brought three small (eight tonnes) second-hand, cranes—all Indian made—and started the crane renting business. Today they are one of the leaders in the crane renting business in India.

Source: Karnani, R. (2002). 'Rise of the Crane Gang', *Business Today* Collector's Edition 2002, The New Entrepreneur, p. 97

The intellectual aspect of planning is evident in its following characteristics.

- It involves translating knowledge and information into a basis or a roadmap for an action plan.
- It involves coordinating different action plans to achieve the common or super-ordinate goals and objectives.
- It is a conscious as well as subconscious activity that is going on intermittently in the life of a professional.

- ***Planning is goal-oriented:*** Planning is a process to determine the vision, mission, goals and objectives of a business. It prepares plans to help individuals, groups and organisations achieve the agreed upon goals or performance objectives.
- ***Planning is future-oriented and involves forecasting:*** Planning is an anticipatory (or forward-looking) decision-making process that determines a future course of action on the basis of certain estimates. The essence of planning is forecasting so as to prepare and equip the manager for the future. It helps the manager in coping with complexities associated with the future.
- ***Planning needs to be dynamic (flexible) in nature:*** Planning process should provide the likely action plans for different scenarios (optimistic, realistic and pessimistic scenarios). The action plans should have flexibility in-built into them. To cope with the changes that are likely to happen in the environment, planning should also provide contingency plans along with the main plans. This would help the practising manager to know in advance what steps need to be taken if the project, task or an activity deviates from the intended planning.
- ***Planning involves choosing from among alternatives:*** Planning is done to select the future course of action from among various alternatives. It involves decision-making because it is a process to determine and analyse various alternatives and choose the best possible alternative(s) under the given circumstances for generating optimum performance.
- ***Planning and control are inseparable:*** Planning and control are inseparable because happening of one affects the other and they act as a pre-condition for one another. If the controlling function is executed on the basis of planning, then the outcome of controlling helps an organisation or an individual to undertake effective planning.
- ***Planning has limitations:*** A plan is created by considering the five Ms (men, material, money, machines and management). The availability of these elements is somewhat contingent on the future business environment, which is very dynamic and complex and cannot be predicted with great accuracy. Therefore, it is difficult to predict at the outset whether the original plan can be implemented exactly in the manner that was desired initially.

IMPORTANCE OF PLANNING

It is unfortunate that a large number of individuals are always in a hurry and feel that they cannot afford to spend time on planning in detail. The consequences of the neglect of planning are there for everyone to see: huge time and cost over-runs; poor quality, etc. Therefore, it is imperative that professionals understand the value of detailed planning. The hours of time spent in planning are far cheaper than the prototypes built and scrapped during performance or reliability evaluation.

In the absence of planning, it becomes difficult to understand the appropriateness of proposed actions and determine what is right or wrong. The advantages of planning can be understood from the following points:

(a) ***Direction Setting:*** Planning sets the direction for the entire organisation as well as for the important functions of management.

(b) ***A holistic picture of consequences:*** Planning assesses in advance the impact of a plan on the organisation and the people within it, and on different stakeholders outside the organisation. It also evaluates whether the effort, cost and implications of implementing a plan are beneficial to the organisation. Thus, planning clarifies to a practising manager to a great extent the consequences and valid justifications of different actions to be undertaken in the future.

(c) ***No haphazard actions:*** Planning is the process by which a manager can determine whether he/she should attempt the task or not. It helps in developing a precise detail of who, what, when, where, why and how of the task. In this way, it avoids haphazard action. Through proper planning, appropriate and properly coordinated actions, relating to a task, can be planned in advance.

(d) ***Economy in operations:*** Planning helps in making the judicious use of available resources through their efficient utilisation. Effective results can be produced with least cost with the help of proper planning. It determines the means that would help in optimum realisation of the goals and objectives of the orgtanisation.

(e) ***Minimising risks and uncertainties:*** Future is uncertain and planning makes an attempt to minimise the uncertainties associated with future activities by trying to comprehend different future scenarios. It helps in formulating different action plans to face the uncertainties in a manner that would not adversely affect the organisational objectives.

(f) ***Estimation of the needed resources:*** Planning makes the manager aware of the resources that will be needed in the near future. This helps the manager arrange the required things in time so that the project does not fail or suffer due to the lack of resources that would be required to implement a particular plan. Planning also helps in developing contingency plans to cope with the lack of resources or changes in the business environment.

(g) ***Better decision-making:*** A systematically undertaken planning can improve the quality of decision-making because it takes into account all factors, and helps in focusing on the critical ones. *Planning* ensures that the manager is aware of the priorities with respect to the actions to be performed. It also helps the manager understand the implications of what he/she wants to do and whether he/she is prepared for all the reasonable eventualities of his/her actions.

(h) ***Promotion of Teamwork:*** Planning forms the basis for facilitating teamwork by assigning different tasks and responsibilities to different individuals.

(i) ***Provision for Control:*** Planning helps in developing appropriate control mechanisms with respect to standards, acceptable quality levels, timelines, cost control, reporting, etc. In the absence of planning, controlling action may not be possible. Control mechanisms help in proper implementation of a plan to achieve desired goals.

(j) ***Technological Development:*** Through planning, the organisation can assess appropriate technological requirements and also develop plans for the integration of a technology into the business in an efficient manner with least amount of resistance.

Assumptions for Planning

Planning is based on the following assumptions which are necessary for the formulation of business plans.

- The planner (individual or a team) is responsible for anticipating the likely opportunities and threats. It is also the responsibility of the planner to devise means to take advantage of opportunities and protect business interests from threats. The planner's ability to foresee, analyse and judge significantly affect the outcome of the planning process.
- The planner has to undertake planning in accordance with the well-defined vision, goals and core values of the organisation, which usually remains fixed over the course of planning. These goals and values affect the process and outcome of planning.
- The planner is assumed to have complete and accurate functional knowledge of the situation for which planning is being undertaken. To what extent the planner is informed about the different variables related with the situation influences the process and outcome of planning.
- The planner is assumed to possess the knowledge and skills required to accurately model different constituents of decision-making. The degree of the rationality that an individual demonstrates in the planning process has a significant impact on the planning process.

ESSENTIALS OF EFFECTIVE PLANNING

Planning needs to be undertaken with careful and extensive research of future situations and their variables in order to achieve the optimum results. For planning to be effective, the management needs to ensure the following things:

1. Clearly define the goal or objective of planning in writing. The goal/objective should be specific, measurable, agreed upon, realistic and time-bound. It should be approved by a person having authority.
2. Review of the past performance and the corresponding feedback should be considered as a key input for effective planning for future.
3. The planner needs to focus on identification of the main issues which need to be addressed.
4. Budgetary and other requirements need to be determined well in advance, and planning should take into account the budgetary and other constraints.
5. Timelines and milestones for the implementation of the plan need to be developed and, if possible, accepted by the people involved in plan formulation and execution, preferably at the planning stage.

6. Shortcomings in the concept, bottlenecks and areas of concern need to be determined in advance as this helps in introducing flexibility in plans and formulation of contingency plans.
7. Effective planning includes development of strategies that aid in effective implementation of plans by creating a positive context and reduction of resistance to plans.
8. Periodically review the progress of the plan formulation so that necessary modification with respect to planning can be developed and incorporated in a timely manner.

PITFALLS AND LIMITATIONS OF PLANNING

In spite of many significant advantages, planning has its own share of limitations. The planning process has to deal with many obstacles and constraints. Some of the pitfalls and limitations associated with planning are discussed below.

1. ***Lack of Accurate Information:*** The quality of planning depends on the relevance and accuracy of the information that is available with the concerned manager. Precise and accurate information is generally not available for strategic and long-term planning. Therefore, plans developed on the basis of inaccurate or inadequate data may not produce optimum results.
2. ***Time-consuming Process:*** The more detailed is the planning, the greater is the time consumed. Managers may spend an excessive amount of time in securing information and decision-making in order to increase the accuracy of planning. This can lead to a delay in the plan implementation, which can result in the loss of opportunities.
3. ***Expensive:*** Gathering of information and testing of various courses of action can involve a large amount of money. As a result, many organisations, particularly the small ones, are unable to afford a formal planning programme. Planning should be undertaken only to the extent to which the accuing benefits justify the costs involved.
4. ***Inflexibility:*** Planning may cause internal inflexibility in the organisation because once a plan is accepted, the focus of the entire organisation would be to go exactly in accordance with the plan. This limited approach may stifle innovation and creativity. This is the reason that small startups with flexible planning are able to challenge large and well-established organisations that have formal planning procedures.
5. ***Environmental Constraints:*** Managers hardly have any control over changes in the external environment of their organisation. These environmental factors are difficult to be predicted accurately. For example, it is difficult to predict the government policies. In the present-day scenario, when change is happening at an accelerating pace, even the best of plans can fail.
6. ***False Sense of Security:*** A manager may believe that once a plan has been prepared, its implementation will go smoothly. It may not necessarily be the case. If a plan is not reviewed and revised periodically, it may hinder or delay successive processes.
7. ***Capital Invested in Fixed Assets Limits Planning:*** If an organisation has made significant investments in the fixed assets, it puts a limit on the future planning and actions.

TYPES OF PLANNING

The nature of the activities undertaken for planning and the purpose of planning can be classified into three categories.

- Formal Planning
- Strategic Planning
- Informal Planning

Formal Planning

Majority of the planning activities that are undertaken in an organisational setting can be termed as formal planning which generally follows a structured step-by-step process. The formal planning process is rational and amenable to the scientific approach to problem solving through creation of a plan.

Formal Planning Process

Although there is no single planning procedure applicable to all the organisations and situations, yet we can develop a generalised model of planning process. The step-by-step approach to planning is briefly described in the following sections.

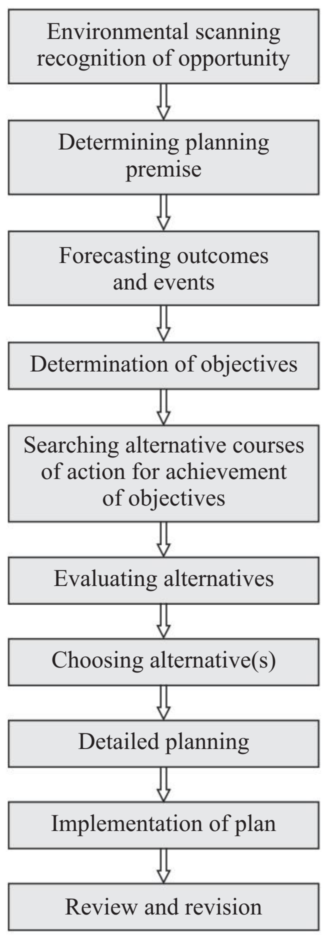

Figure 8.1 The Planning Process

1. ***Step I—Environmental Scanning: Recognition of Opportunities:*** This step forms the basis of planning and usually paves the way for actual planning. Sometimes, it is not a part of the planning process. The management continuously looks for the opportunities that can be exploited by the organisation. These opportunities may be external to an organisation or internal to it, but they give an indication regarding what needs to be done. This step can be executed in the following different ways.
   (a) Spotting new ideas at different forums like industry events, exhibitions, etc.
   (b) Performing a SWOT Analysis for the organisation.
   (c) Responding to competitive pressures.
   (d) It can also begin with asking one or more questions like: What if ...? Could we ...? Is it possible...? How should we respond ...?

   As it is evident from the findings presented in Exhibit 8.2, this step is conducted on very different lines by different types of organisations and individuals. It can be executed informally or unconsciously in some organisations, while in others it is done formally by instituting teams for this purpose. This step generates a pool of ideas that serve as raw material for the subsequent steps of planning process.

Exhibit 8.2 Idea Generation: Transforming Weakness into Strength

Ekta Kapoor, Creative Director, Balaji Telefilms, production house that developed one of the most successful tele-serials, stated that "Low self-confidence made me take in the thousands of suggestions that came my way without even once pausing to listen to my own gut feel." On the other hand, some of the organisations have full fledged departments and market research teams to scan the business opportunities.

Therefore, there are multiple ways to execute this step, ranging from very structured and formal to almost an unconscious scanning of the business environment for recognising the opportunities.

Source: Nayak, S. (2002). 'Queen of the Arc Lights', *Business Today*, Collector's Edition 2002, The New Entrepreneur, p. 77.

2. ***Step II—Constructing the Planning Premise:*** The planning premise represents facts, information and assumptions about the environment on whose basis the plan has to be formulated and implemented. In other words, the planning premise represents the forecasts upon which the planning shall be based. The planning is likely to be successful only if these forecasts are adequate.

   This step is important because planning is generally affected by the internal and external environments, and the manager needs to take into account estimates about them for the near and distant future. The extent to which a manager can make accurate assumptions significantly affects the quality of planning. The constituents of the planning premise may be classified as external and internal, as given in Table 8.1.

Table 8.1 Constituents of Planning Premise

Constituents External to Organisation	Constituents Internal to Organisation
Business conditions	Strengths and weaknesses of firm
Economic conditions	Values of top management
Price levels	Financial position
Technological factors	Human resources available
Political environment	Production capacity
Social factors	Strategies
Competitor's plans	Policies and procedures, etc.

The constituents of the external environment are more important for strategic or corporate-level planning undertaken at the top management level. For tactical planning, the internal planning premise, i.e. the internal environment, is more important. Environmental constraints constitute a special type of planning premise. If the non-availability of capital investment and low-plant capacity prohibit the realisation of an objective, then it is not appropriate to plan for that objective until a proper plan is developed to overcome the constraints.

3. ***Step III—Forecasting Outcomes and Events:*** On the basis of planning premise and the opportunity under consideration, different tentative outcomes, events and scenarios in the near and distant future are forecast by the team or the individual authorised to undertake the planning activity.
4. ***Step IV—Determining Objectives:*** In the light of the opportunities, planning premise, constraints and the likely scenarios in the future, the next step in the planning process is to define exactly what is intended to be accomplished, i.e. determining the objectives of planning. The objectives specify the expected results and define the areas where the main emphasis should be placed. They might be for the whole organisation or for a work unit (divisions, departments, sections, etc.) or even for a singular project or task or individual.

   First, the goals for the entire organisation are laid down. Then these goals are divided into specific objectives for each department.The departmental objectives are set in measurable terms such as revenues, costs, production volumes, sales targets, etc.
5. ***Step V—Searching Alternative Courses of Action:*** This step involves the exploration for alternative ways to achieve the desired objectives. Ideally, a good number of alternatives should be generated so that the best alternative could be selected through proper analysis, documentation and quantification of alternatives. These alternatives can also be generated through different idea generation techniques whose brief explanation is given below.

   (a) **Brainstorming:** Developed by Alexander F. Osborn[2], brainstorming is a technique to stimulate idea generation in a group setting. Given below are the guidelines for conducting brainstorming in an effective manner.

      (i) Ideally, the group size should not be more than five or six people.

      (ii) A mixture of personality types should be included in the group, if possible.

      (iii) If possible, one to two facilitators who have the ability to use many idea-generation approaches should be included in each group.

      (iv) A facilitator needs to establish the ground rule of separating idea generation from idea evaluation.

      (v) A fun-filled and playful atmosphere needs to be created in the group. Research has shown that groups in which humour is evident generate more ideas.

      (vi) A facilitator or the team leader needs to keep the groups moving. When a group's new ideas 'dry up', the facilitator should move on to another technique.

   (b) **Brain writing**: It is a technique that involves a group of four or five people who write down their ideas silently. After everybody has written all the ideas that they could think of, they pool the results. The advantages of brain writing are as follows:

      - Empirical research shows that, all things being equal, a nominal brain writing group generates more ideas than a typical brainstorming group. A research project at the

University of Oklahoma (VanGundy[3], et al.) compared different idea-generation methods and found that having group members write down their ideas and then pass them to other group members was the best way to increase ideas (an average of 121 ideas for 45 minutes). In comparison, a traditional nominal brain writing group or a brainstorming group could generate only 47 ideas and 30 ideas, respectively.

- Nominal groups (as group members provide ideas on an individual basis without any discussion) ensure equal participation by eliminating conflicts and dominant personalities.
- Nominal groups are more likely to list more ideas because in brainstorming only one person can talk at a time.

Still, brainstorming as a technique cannot be overruled by brain writing because brainstorming groups satisfy the social interaction need that is not possible in brain writing groups. A combination of brain writing and brainstorming methods needs to be used for maximum effectiveness.

(c) **Pin Cards:** In this approach, developed by Geschka, Schaude, and Schlicksupp[4] (1973), group members sitting in a circular manner are given a stack of index cards and told to write down one idea on a card and pass it to the person on their right. This person examines the idea and uses it to prompt additional ideas. He/she writes down any new ideas (on a separate card) and passes both the cards to the person on his/her right. This process continues until time is called (usually about 15-20 minutes). All idea cards are collected and then saved for later evaluation or sorted into idea categories or functional areas.

(d) **Product Improvement Check List:** VanGundy[5] (1985) developed the Product Improvement Check List as a brainstorming aid for individuals as well as groups. It consists of a poster-sized worksheet printed on two sides with 576 stimulus words organised into the four following categories.

- **Try to**: Includes words like slice it, sketch it, punch it, brush it, saturate it, etc.
- **Make it**: Includes words like transparent, portable, stretch, reflect, magnetic, etc.
- **Think of**: Includes words like escalators, radios, time bombs, eggshells, boat rudders, etc.
- **Take Away or Add**: Includes words like traction, friction, zippers, movement, anticipation, etc.

The words in the four categories act as stimuli for generating ideas on a given situation. Group members are required to use these random stimulus words in several ways to generate ideas. The simplest way is to select a word at random and see what ideas it stimulates. One can write down the related idea, and then move on to another word.

(e) **Semantic Intuition:** This typical invention process involves inventing a product and then giving it a name. Schaude[6] (1979) developed this technique by reversing the invention process. This technique involves generating names first and then using them to suggest product ideas. Semantic intuition involves the following three basic steps:

1. Generate two lists of words associated with the problem area.
2. Randomly select one word from each list.
3. Use the word combinations to suggest ideas.

6. ***Step VI—Evaluation of Alternatives:*** To select the best possible alternative, all the available alternatives are evaluated. The evaluation involves weighing the appropriateness of each alternative by analysing its advantages, disadvantages, expected results and benefits in accordance with the planning premise and pre-defined goals and objectives. The common factors, taken into consideration while evaluating different alternatives, are: risk, capital requirement, compatibility with long-range objectives, etc.

   Because of intangibles and uncertainties associated with the future, a careful evaluation of various alternatives becomes critically important. In the analysis of different alternatives, both qualitative and quantitative factors should be considered. Alternatives can be quantified and reduced to mathematical equations as variables and then certain mathematical techniques can be applied for a pertinent and rational analysis. Operation Research, Decision Trees and computer-aided simulation tools are available with today's managers to analyse and interpret the quantified data. Qualitative analysis is performed for unquantifiable issues such as ethics, effects on people and the environment, etc.

   As this step involves both qualitative and quantitative analysis, experience, wisdom, judgment, logical thinking, research and experimentation all are employed in different proportions by different managers to evaluate different alternatives.

7. ***Step VII—Selecting an Alternative:*** After analysis, the manager has to select the best alternative from various available options. In some situations, managers do not make much effort to select the best alternative, rather they settle for an alternative that helps them optimise their effort and investment in making a choice. This is usually done because the paucity of time and limited resources prevent them from carrying out in-depth research and analysis of all the possible alternatives.

   Vision, mission, goals of the organisation; current planning premise; environmental constraints; factors of pragmatism; and implementability and cost need to be taken into consideration while making a final choice of the alternative(s). As the selection of an alternative is usually irreversible after the start of its implementation which involves huge investment, this step needs to be taken with rationality, caution and wisdom.

   In some situations, a manager may shortlist more than one alternative after evaluating a set of alternative courses of action. This is usually done when either the decision is very crucial or the chances of changing of the planning premise are quite high due to great uncertainty about the future. In such a case, the manager must be ready with an alternative plan (usually called a contingency plan) that can suit the changed situation. For example, if a company has to transport finished goods to its customers by a stipulated date and the truckers go on a nation-wide strike, what alternatives should the company explore to meet the deadline so that it does not lose the order and the credibility? This step of making a decision in the planning process transforms planning into a plan by making a psychological commitment to a particular alternative.

8. ***Step VIII—Detailed Planning: Formulation of Derivative Plans:*** After the formulation of a plan, there might be a need to further divide the master plan into derivative plans for delineating all activities and working out details for each and every activity in order to implement the master plan. The master plan can be implemented effectively if it is defined in detail and the transitional arrangements and contingencies have been considered at the outset. To make a detailed derivative plan more comprehensive, it must include: what action should be taken where, by whom and in

what order. The derivative plans can be developed by identifying key activities, prioritising different actions that need to be taken and putting control mechanisms in place for the successful implementation of the master plan.

9. ***Step IX—Budgeting:*** This step involves conversion of plans into budgets to make them really meaningful. Through budgeting, a manager can go for proper financial evaluation of the chosen plan before implementing it. Different techniques such as cost-benefit analysis, PMI, Force Field Analysis, Cash Flow Forecasting and Risk Analysis can be employed to perform this analysis. The results of the analysis can make a manager more aware of the unsuspected considerations. The information learned at this stage can be integrated into the plan to improve it. If done properly, budgets can set the standards against which the progress of the plan can be measured.

   When it is felt that the plan is not likely to be financially feasible, it should either be adjusted or other options for financing the plan could be explored. In some situations the plan might need to be delayed or scrapped if adequate funds for its implementation are not available.

10. ***Step X—Building Agreement:*** The manager needs to make an all-out effort to win the necessary support and agreement at the top level as well as among other functional departments and subordinates for the plan before going ahead with its implementation.

11. ***Step XI—Implementation:*** Once a plan has been selected and its necessary details worked out, the manager has to go all out to implement it. At this stage, there is a need to communicate in clear words the desired objectives of the plan and why they are important for the organisation and to the employees. Any vague communication can mislead the employees and the results can be negative. Once everybody understands what is expected of them, there is need for monitoring the execution of the plan so that corrections can be applied, if necessary. The manager may have to understand and overcome the resistance that might surface at the time of implementation.

12. ***Step XII—Review:*** The last step related with planning is to determine whether the work is being executed in the desired manner or not. The plan has to be regularly reviewed during and after its implementation. A review helps managers to measure results, evaluate the plan, identify deviations from the established course of action and take corrective action, if necessary, by identifying and removing obstacles, solving problems and making changes in those aspects of the plan that are not giving the expected results. The review helps managers to update the plan in the light of changes in the business environment.

    Secondly, howsoever good the plan may seem before the start of its implementation, there are likely to be some unforeseen events and obstacles, which only become apparent once the plan is implemented. This creates a need to modify the original plan (which may also be positive, not just negative).

    The planning process needs to be cyclical instead of being linear. Once a plan has been devised and implemented, it should be evaluated at the end of the implementation to understand what went right and what went wrong. The success or failure of the plan needs to be acknowledged at the time of its closing, and the feedback information has to be fed back into the system for the future planning. This feedback and knowledge can be a useful source of learning for the improvement of future planning. There is a need not only to assess the efficiency and effectiveness of a particular plan after its implementation but also to learn how to improve the entire planning and execution process and strategies.

Strategic Planning

Strategic planning is a special type of planning that involves analysis and development of the organisation's vision, mission, overall goals, general strategies and allocation of resources. It produces fundamental decisions and actions that shape and guide the direction of the entire organisation. Top-level managers are involved in strategic planning that answers the questions such as:

- What is the purpose of the organisation?
- What does the organisation have to do in the future to remain competitive? Why it needs to do that?
- What strategies should an organisation adopt to achieve its intended goals?
- How much resources need to be allocated to different business units to enable them achieve their objectives?

Traditionally, strategic planning is done annually. However, many companies are doing away with annual business plans and moving to a system of continuous planning to permit quicker response to changing conditions. Thus, strategic planning is a process to adapt the organisation to take advantage of opportunities in its constantly changing environment. The information pertaining to external environment and summary reports about finances and operations of the organisation are key inputs needed by the top management to undertake strategic planning.

Mui and Downes[7] (1998) suggest that strategic planning will be replaced by digital strategy. They make the argument that business change originates with technology, particularly with new computer-based products and services that transform the industries the way American Airlines' SABRE system has transformed travel. The top management must formulate digital strategies (software and digitally delivered services) that not only support business but also actually dictate how business is done.

Strategic Planning Process

Strategic planning determines the course of action for the entire organisation. Because of its distinctiveness and vitality for the entire organisation, strategic planning is approached somewhat differently from the formal planning process adopted by the organisation on a regular basis. The steps that can be followed by an organisation for strategic planning are given below.

1. ***Step I—Environmental, Industry and Organisation Analysis:*** In order to start strategic planning, the management must be equipped with appropriate and adequate information with respect to different constituents of the business environment of the organisation. This information can be collected for areas, like: the current and likely political, economical, social and technological environment of the industry; the nature and intensity of competition for the organisation, bargaining power dynamics in the industry; SWOT analysis and current competitive position of the organisation; key values of the organisation, etc.
2. ***Step II—Defining the Vision:*** Strategic planning begins with defining the vision of the organisation. It represents what an organisation intends to be in the long run. It is not only a source of inspiration but also acts as a key goal that drives the entire organisation and provides a clear criterion for decision-making in the organisation. A powerful vision can channelise the energies of the top management and all the employees to perform something that they perceive to be challenging and

meaningful. For example, the vision statement of a leading rice exporter of India could be: 'To be the world's largest exporter for basmati rice.'

Today, organisations require a vision more than ever before because the change is coming faster than in the past, and the visionary leader is the one who has the ability to foresee something and be ready with a solution. At the same time, the CEO should be a visionary to anticipate the future, but shouldn't be overwhelmed by it[8]. The vision statement of an organisation needs to be reviewed periodically to make it appropriate for a given context. Microsoft's early vision 'A computer on every desk and in every home' became 'Connected PC and the connected TV' by 1998 and by 2002 it was modified again as 'To enable people and businesses throughout the world to realise their full potential'.

The vision of an organisation should be challenging enough to give a meaning to the lives of its different stakeholders and motivate them constantly to work collectively towards the realisation of the vision.

Leaders have the ability to make their vision real by engaging the minds as well as the hearts of others. A study over the period from 1926 to 1990 found the visionary companies that set a purpose beyond making money outperformed other companies in the stock market by more than six to one[9].

3. ***Step III—Defining the Mission:*** After defining the vision, the next step is to define the mission which states the purpose of the organisation and describes 'why' and 'for what' it exists. An explicit mission guides the employees and other stakeholders of the business entity to work independently and yet collectively towards the realisation of the same goal of the organisation. If the company already has a mission, it can be periodically reviewed to ensure that it is still relevant and meaningful in the face of changes in the business environment.

   A mission statement should ideally be short and easy to understand so that it can be easily recalled. Every employee should be able to recite the mission statement from memory. An effective mission statement should ideally contain three vital constituents: the purpose of the organisation, the business of the organisation and the values of the organisation. The mission statement of Pfizer Pharmaceutical clearly depicts these constituents. It is: '*We dedicate ourselves to humanity's quest for longer, healthier, happier lives through innovation in pharmaceutical, consumer and animal health products*'.

4. ***Step IV—Conduct a SWOT Analysis:*** A SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis about the current situation of an organisation is critical to the creation of any strategic plan. The SWOT analysis begins with a scan of the external environment of the organisations to examine its current situation. This helps in understanding the opportunities and monitoring the threats facing the organisation.

   SWOT analysis also includes assumptions and facts related to the strengths and weaknesses of the internal environment of the organisation in relation to its external environment. An organisation needs to determine its internal environment to figure out what are its strengths and weaknesses with respect to the situation in which it finds itself at a particular time-frame.

   The SWOT analysis presents the following picture before an organisation about itself in a given scenario:

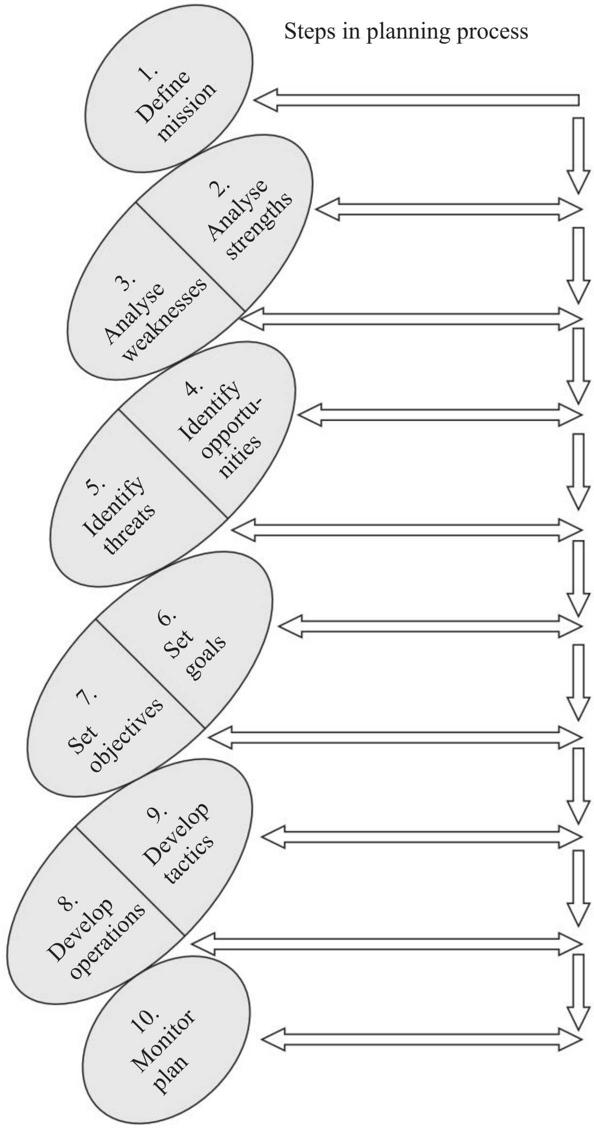

Figure 8.2 Strategic Planning Process

(a) Assessment of the strengths of the organisation specifies what makes the organisation distinctive or different from others—what is its Unique Selling Proposition (USP) or what is its competitive advantage? The strengths of an organisation can include efficiency in its manufacturing and customer delivery processes, skill of its human resources, market share, the amount of financing it can generate, the reputation and goodwill of its brand in the market, etc.

(b) Assessment of the degree and quantum of weaknesses of the organisation determines the areas that are relatively weak, vulnerable and which could be exploited by the competitors or public. The weaknesses include issues like outdated or obsolete facilities/technology, inadequate research and development, the competition's advantage in relation to the organisation, etc.

(c) Identification of opportunities determines the areas in which competitors are not meeting the customer needs efficiently or effectively. The opportunities include potential new markets, growth in the economy, the areas in which competitors are weak, emerging technologies that can serve customers better, the possibility of growth in the existing market, etc.

(d) Determination of threats outlines the areas in which the competition meets customer needs more effectively or efficiently than the organisation. It provides information in the areas like competitors that are more efficient and effective than the organisation in meeting the customers' needs, shortage of resources that are vital for an organisation's operations, changes in the market tastes that require new offerings, new regulations that might affect the organisation adversely, substitute products that exist in the market, etc.

The comparison of the organisation with its external benchmarks (the best practices) assesses the relative strength of its current capabilities. It is used as a baseline for future improvement and for gap analysis as it uncovers the best practices that can be adopted by the organisation for further improvement. It determines the level of progress that is required to move the organisation from its current capabilities to its desired future state. In this manner, the organisation can enhance its performance by adopting a strategy that matches the organisation's strengths with the opportunities in the environment.

5. ***Step V—Set Key Goals and Objectives:*** Strategic goals and objectives represent the ends that the organisation strives to attain and focus upon. They need to be derived from the vision and mission of the organisation. In other words, they should enable the achievement of the vision and mission by bridging the gap between organisation's current capability and its desired future state. The planning team can translate the vision and mission into long- and short-term goals and objectives by working backwards from what they finally intend to achieve and, accordingly, setting the time and monetary deadlines. Goals and objectives can be established either through top-down approach or bottom-up approach.

   Generally, organisations have long-term goals for factors such as return on investment (RoI), earnings per share (EPS), or size or turnover of the organisation, market share, market position, etc. Goals are further subdivided into objectives which are also referred to as performance goals. They express goals in a manner that allows for an assessment with respect to their achievement. They are important because they provide a direction for all managerial effort and decisions, and they form the criteria against which actual work accomplishments can be evaluated.

6. ***Step VI—Development of Strategy:*** The term strategy has its roots in the Greek word *stra-te-gi-cos*, which means 'generalship' or whatever a general would do to prepare for and win a battle. A strategy is a coordinated course of action and overall approach that would be adopted by an organisation to achieve its vision, mission, goals and objectives. In a business organisation, strategy is developed and communicated by the top management as a guideline to managers, stipulating how they ought to allocate and utilise resources to the business's advantage.

Strategy requires choices and involves tradeoffs because an organisation cannot be all things to all people, and still do a very good job of it. It has to decide what kind of value it wants to deliver to whom[10]. The time length for strategies varies from two to five years and determines the time span for which the organisation is committing its resources. Different sets of strategies for an organisation could be like diversification into unrelated area, backward or forward integration, expansion into international market, etc. The following elements must be taken into consideration while selecting a particular strategy:

- Current and potential risk in the near future on account of the strategy.
- Timing with respect to the launch of strategy.
- Current and potential benefit and competitive advantage in the near future on account of the strategy.

A good strategy aims to achieve the following objectives:

- Creating a unique position or sustainable advantage for the organisation through cross-functional integration of activities across the value chain.
- Strategy is not just a matter of being better at what an organisation does but it's about being different at what it does. Thus, it is about setting an organisation apart from the competition. Strategy is about being unique in the marketplace. Whether it was its global delivery model or the reaction to the entry of MNCs or getting listed on the Nasdaq, Infosys has always demonstrated that it had a strategic bent of mind[11].

7. ***Step VII—Development of Tactics:*** For implementation purpose, strategies need to be further defined in terms of tactics. Tactical and operational plans have been described in detail later in the chapter under Types of Plans.
8. ***Step VIII—Development of Contingency Plan:*** Although the choice of strategy is an extremely vital decision for the organisation, yet it should be ready with a contingency plan in case there is a drastic change in some of the elements of the planning premise. It might also establish the condition with respect to the activation of the contingency plan.
9. ***Step IX—Implementation:*** At this stage the top management assigns the strategic plan to the middle management, which develops operational plans. It can also develop tactical plans in consultation with frontline management for execution, and develop an action plan for performing the controlling function.

   There is need to provide the necessary motivation and ensure optimum participation of employees at different stages of plan implementation for generating optimum output. It must be understood that making a strategy work is more difficult than formulating a strategy. The top management has to get involved not only in development but also in the implementation of strategy through proper support, follow-up and review. Their involvement gives a tacit message to the other managers that the strategy is extremely vital for the organisation and they have to make a serious effort to ensure its successful implementation.
10. ***Step X—Monitor the Plan:*** A systematic method of monitoring and controlling the implementation of strategic, tactical and operational plans must be adopted at the outset to continuously improve the strategic planning process. Some adjustments may be needed in the original plans to accommodate the changes in the external and/or internal environments of the organisation.

The key factors required for the success of strategic planning are: proper analysis, review and implementation of corrective measures if significant deviations are noticed during review. Feedback needs to be encouraged and incorporated to determine whether goals and objectives are feasible and whether they are being achieved. Criteria must be set up in advance to decide when the strategy must be changed. The output of the review of strategic planning is also useful as important input for the next planning cycle in terms of context, feedback, procedure or method to be adopted.

Informal Planning

All planning activities in personal and professional lives are not conducted by following a systematic step-by-step procedure. In some cases, planning is done in an informal or unstructured or even ad hoc manner. In informal planning, the steps of planning may not be followed in a proper sequence, and how to go about planning is entirely dependent on the wishes or convenience of the concerned individuals. Nothing may be put into writing and there is little or no sharing of goals with others in the organisation. This informal planning is usually done by individuals, informal groups and in small businesses where the owner-manager has a vision of where he or she wants the business to go and how to get there.

The outcome of any form of planning process is a plan which signifies the intent of the team to undertake an action. The exploratory and evaluative process of thinking comes to a conclusive end with the development of a plan.

PLAN

Planning helps a manager to develop both goals as well as plans. If goals represent the destination, then the plan represents the path chosen to reach there. A plan is an outcome of the planning process that defines a framework within which a managerial effort must operate in order to achieve the desired goals. It outlines how the goals are going to be attained. It describes schedules of different activities along with timelines, resource allocations and other necessary actions in order to accomplish the goals. Managers may develop different plans such as a business plan, a financial plan or a marketing plan for discharging different managerial functions and accomplishing various tasks.

Purpose of Plan

Preparation of suitable plans is an important aspect of the business organisation. A plan serves the following critical functions.

(a) Serves as the fundamental document for seeking external support in the form of consent and resources.
(b) Helps management clarify, focus and research the prospects of their business or the project in the near future.
(c) Provides an agreed upon and logical framework within which an organisation can develop its business and pursue business strategies.
(d) Offers a standard against which the actual performance can be measured and reviewed.
(e) Plays a vital role in helping individuals avoid mistakes or recognise hidden opportunities.

It must be remembered that preparation of a comprehensive plan cannot guarantee success, but lack of a sound plan is quite likely to ensure a failure.

Classification of Plans

A variety of organisational plans are made by managers in order to achieve the objectives of an enterprise. These plans can be classified on the following basis (Fig. 8.3).

(i) ***Breadth:*** Strategic, Tactical or Operational Plans
(ii) ***Time frame:*** Long-term, Medium-term or Short-term Plans
(iii) ***Frequency of use:*** Single-use or Standing Plans
(iv) ***Specificity:*** Financial and Non-financial Plans; Product and Project Plans

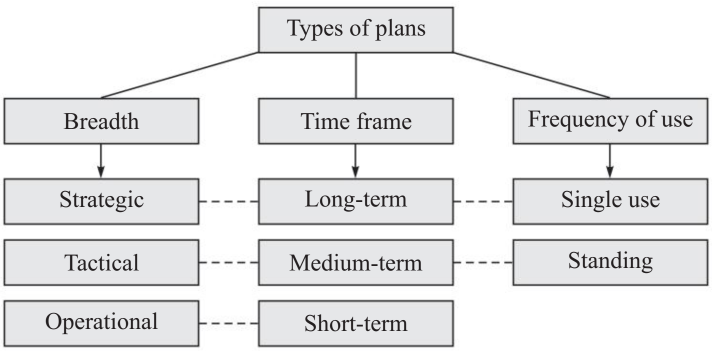

Figure 8.3 Type of Plans

These classifications of plans are not independent on one another but closely related with one another. For instance, there is a close relationship between the short- and long-term categories, and the strategic and operational categories. Given below is the detailed description of different types of the plans.

Plans Based on Time Frame

Depending upon the time span of the activities included in plans, they can be classified as:

(a) ***Long-term plans:*** Long-term plans are formulated for the activities that are to be covered for over five years. As organisational environments have become more uncertain and are changing at an accelerating pace, the plans for a period of 1-3 years are also referred to as long-term plans by some organisations.
(b) ***Short-term plans:*** Short-range plans are meant for guiding day-to-day operations. These plans are generally made for goals to be achieved within a year or less.
(c) ***Medium-term plans:*** Medium-term plans are developed generally for a time period ranging from three to five years.

The difference in the periods of short-term and long-term plans has shortened considerably. Although the above time-based classification of plans is fairly common, yet many organisations do not follow this classification. They assign their own time frames to long-term and short-term plans.

Plans based on Breadth

On the basis of scope of activities and their overall impact on the organisation, the plans can be classified as follows:

(a) ***Strategic plans:*** These plans apply to the entire organisation. They seek to position the organisation in terms of its environment. Strategic plans tend to cover a longer time frame and impact a broader aspect of the organisation. These plans establish the vision, mission, goals and objectives of the organisation. Strategic plan have already been discussed under strategic planning process.

(b) ***Tactical plans:*** Tactical plans indicate the actions that major departments and sub-units of the organisation should take to achieve the short-term goals that contribute to the implementation of strategic plans. These plans are more concerned with actually getting things done than with deciding what to do. Compared to strategic plans, tactical plans cover a shorter time frame (usually 1-2 years).

These plans are developed by middle-level managers in accordance with the strategic plans. They may consult frontline managers before finalising and communicating tactical plans to the top-level management.

(c) ***Operational plans:*** Operational plans specify the detailed steps necessary for achieving the goals established by tactical plans. They serve as a guide to the department manager's day-to-day operations. Operational plans tend to cover short time periods (monthly, weekly and day-to-day operations) tasks, events and activities. These plans are also referred to as Standing Plans. The nature and scope of different types of operational plans are discussed below.

(i) ***Policies:*** Policies are general statements that provide guidelines for thinking and decision-making in an organisation for recurring situations. Policies are not as stringent as rules. They provide managers some control or discretion within a specified boundary to facilitate effective decision-making. Policies permit initiative by managers who can apply their minds in accordance with the situation. They help managers in deciding day-to-day issues without having to analyse the same situation every time it comes up for their consideration. They permit managers to delegate authority and still maintain a broad control over what their subordinates do.

Policies are usually classified along functional lines, like marketing policy, HR policy, etc. The examples of policy include a policy of 'promotion from within', 'cash only' sales policy, etc.

(ii) ***Procedures:*** Procedures are more specific plans that establish a sequence of steps or operations which must be followed for carrying out a regularly occurring activity. For example, the induction procedure or the procedure for filing of a complaint, etc. Procedures offer very less discretion to the concerned manager in its application.

If policies are guide to thinking, then procedures are guides to action. They detail the exact manner in which certain activities must be accomplished. For example, McDonalds has established detailed procedures with respect to the entire process from taking an order to finally deliver it to the customer to obtain the desired efficiency.

(iii) ***Method:*** A method is more specific and detailed operational plan than a procedure. If a procedure depicts a series of steps, then a method describes in detail how each step needs to be handled and executed. It defines the manner and the sequence of performing a recurring, individual task. Almost no discretion is allowed in the application of a method. Examples of method are cashing a cheque, setting up a machine, etc.

(iv) ***Rules:*** Rules constitute an established guide for conduct in a given situation. They allow no discretion. They include definite of what should be done and what needs to be avoided in a given situation. For example, rules about coming late to the work or absenteeism clearly guide the supervisor about the disciplinary action he has to take without any discretion or deviation. 'No smoking' is a rule that allows no deviation from a stated course of action. The difference between a policy and a rule is that policies allow discretion in decision-making, whereas rules allow no discretion.

Plans Based on Frequency of Use

On the basis of frequency of use, plans are classified as standing plans and single-use plans. The single-use plans are designed for a specific purpose or period while the standing plans are used when an activity is to occur repeatedly.

Single-use plans A single-use plan is a one-time plan which is specifically designed to meet the needs of a unique situation. Different types of single-use plans are briefly described below.

(i) ***Programmes:*** Programmes are large-scale single-use plans that coordinate a complex set of activities to achieve important non-recurring goals. They clearly spell out goals, policies, procedures, rules, task assignments, steps to be taken, and resources to be employed to carry out a given course of action. Programmes are ordinarily supported by budgets. They may be as major as an organisation's programme to modernise its plant with the installation of CNC machines or a one-year programme to improve the quality of customer service. Or, they may be as minor as a programme developed by a manager to check the absenteeism of his subordinates.

(ii) ***Projects:*** A project is similar to a programme, but is smaller in scale and less complex. A project may be a component of a programme, or it may be a self-contained, single-use plan. A project helps in the precise allocation of duties and effective control and easy implementation of a plan. Projects represent various activities that are assigned to individuals or cross-functional teams for elimination of problems, improvement of productivity, etc.

(iii) ***Budgets:*** A budget is a statement of expected results and corresponding investments or expenditure expressed in numerical terms for a given period of time in the future. It may be developed in financial terms or man-hours or machine-hours or units/batches/lots per hour/day. It may be in the form of expense budget for operations; capital expenditure budget for capital outlays; cash budget to depict cash flow; and, profit plan for financial operating budget.

Classification of Budgets Budgets can be classified into various types on the basis of different perspectives and requirements (Fig. 8.4):

(a) Classification of Budgets according to Time

(i) Long-term budget: These budgets show the long-term planning of business. This planning is done by the top-level management and is not known to the lower levels of management. These budgets guide the implementation of strategic plans and are generally for 5 to 10 years.

(ii) Short-term budget: These budgets are generally for one or two years and guide the implementation of tactical or operational plans. The consumer goods industry normally employs short-term budgets.

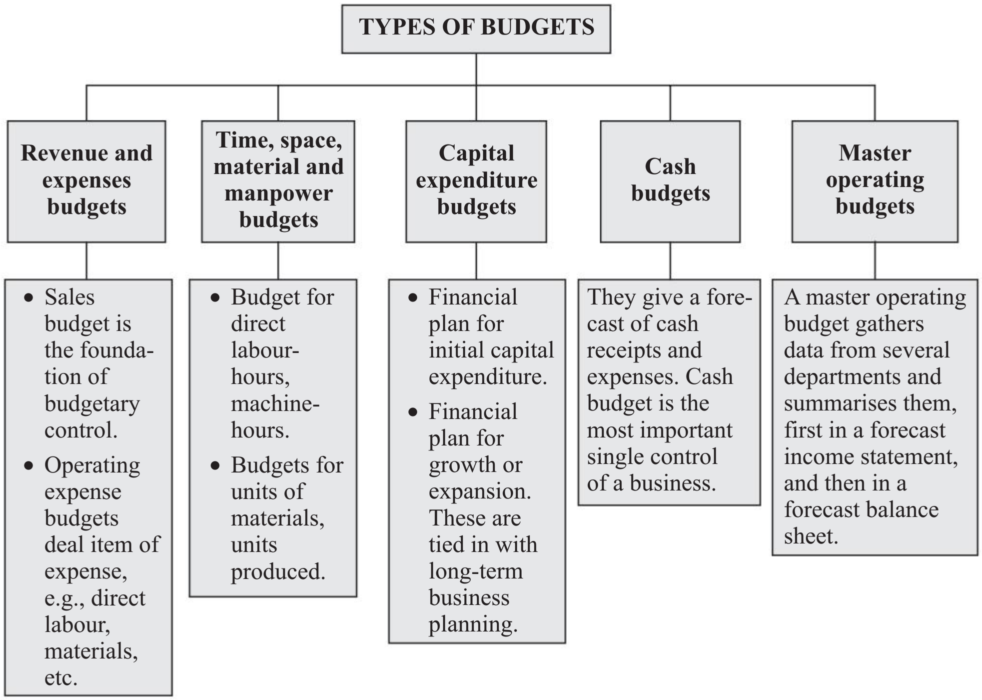

Figure 8.4 Types of Budgets

(b) Classification of Financial Budgets on the basis of Functions

Financial budgets usually include both a short-range, month-to-month plan, normally for one calendar year, and a long-range plan covering a period of at least three years (some go up to five years) on a quarterly or annual basis. Financial budgets should ideally include the income statement and the balance sheet. The types of financial budget are as follows:

(i) **Revenue budget**: This budget assessed business revenues by forecasting the future sale of different products produced by the organisation.

(ii) **Expenditure budget**: This budget lists all the expenses which are to be incurred to achieve the desired goals and objectives. It determines the likely expenditure to be incurred in a forthcoming period and its classification under different heads.

(iii) **Profit budget:** This budget combines both revenue as well as expenditure budgets to determine the overall contribution of the organisation or an activity to its profit.

(iv) **Cash budget:** Cash budget forecasts the cash flow related with an organisation, a project or an activity. It facilitates the assessment of the cash that is required and is likely to be available in the near future to meet the expenses for an activity or the organisation as a whole.

(v) **Master budget:** Master budget is developed by integrating many separate financial budgets. It is prepared by the top-level management and is usually not shared with the lower levels of management.

(c) Classification of budgets on the basis of flexibility

(i) Fixed budget: This form of budget is prepared under static conditions or situations when revenue, expenditure, etc. are fully predictable for a given level of activity for a given period.

(ii) Flexible budget: A series of flexible budgets is prepared for different levels of activity. In a flexible budget, due consideration is given to the unforeseen changes that might happen in the conditions of the business environment. Flexible budgets are useful because forecasting is usually certain. In flexible budgets, two or more scenarios are predicted and the subsequent plans are developed for each of these scenarios. This helps the implementing managers to quickly modify their action plans with the changes in the external environment.

Standing Plans: Standing plans are the operational plans that provide guidance for the activities that are performed repeatedly. They include different types of operational plans, like policies, procedures and rules. Standing plans provide readymade answers for given situations. In banks, a request for grant of a loan is handled according to a standing plan (i.e. procedure). Different forms of standing plans have already been described in detail under operational plans.

PLANNING AND CONTROL

Management is a cyclical process involving different managerial functions which are interrelated, interdependent and inseparable. For example, unless one knows what one wants to achieve and how to achieve that, one cannot tell whether one is going in the right direction or not. Therefore, the outcome of the planning function forms the basis of the control function. Similarly, the output of the control function specifies what went right, what went wrong, what was feasible, what was planned, and what was actually accomplished. The feedback, gathered from the control function, serves as the necessary output for the planning processes to be undertaken in the future.

Thus, it may be difficult to execute control without planning and planning may not be that effective if it does not take into account the facts and observations that emerged while performing the controll function. The learnings of managers that arise from the implementation of plans and the execution of necessary control functions add to the planning skills of managers. This experiential knowledge makes them better planners over a period of time.

WHY DO PEOPLE AVOID PLANNING?

A planned effort leads to various benefits. But, a good number of people, despite being aware of these benefits, avoid planning their activities. Some of the reasons behind people avoidance of planning are discussed below.

Organisational Factors for Avoidance of Planning

These factors are associated not with the manager but with the organisation for which he/she works.

- *Firefighting:* An organisation may be so deeply embroiled in crisis management and firefighting in its day-to-day operations that it simply does not leave the manager with sufficient time to properly plan his/her activities.

- ***Opposition to planning:*** An organisation may consider planning as a waste of time. This may be the case with organisations which are culturally opposed to spending resources, have limited resources to spend on planning, have little time to plan, or are doing a very simple job, and have managers who are so experienced in their jobs that they do not feel the need to undertake any structured planning.
- ***Poor reward structures:*** Sometimes adequate rewards may not be there for successful planning. On the contrary, there is a perceived threat of deprivation of promotion or other adverse effects because of potential failure of a plan. This often leads to a situation where an individual feels it is better not to do nothing (and avoid drawing any attention) than to risk his/her career by trying to achieve something for the organisation.

Individual Factors for Avoidance of Planning

An individual's resistance to planning can result from the following factors:

- ***Laziness:*** Some people are not keen to devote their time, attention and effort needed to do detailed planning.
- ***Resistance to Change:*** Individuals may believe that there is no need to plan for a change as the things are OK as they stand.
- ***Fear of Failure:*** Whenever something new or different is attempted, there is some risk of failure. But in routine functioning, unless a problem is urgent and pressing, people tend not to take such action that exposes them to the risk of failure. Therefore, in order to save their job, people tend to avoid planning something radically different and are content with incremental changes.
- ***Experience:*** As individuals gain experience, they may rely less and less on formal planning. This may be appropriate and efficient in some situations. But, overconfidence based on the overestimation of experience may lead to failure, creating an unnecessary crisis.
- ***Poor Experience of Planning:*** People may have had a bad experience of planning in the organisations where the planning process was long, cumbersome, impractical, and inflexible, and might have led to a costly delay or loss of opportunity. The bad experience can make people harbour a bias against proper planning and go ahead with half-baked plans.

SELECT APPLICATIONS OF PLANNING

- **Budgeting:** Budgeting refers to making a classified presentation of all the likely expenditures and earnings of an entity or an activity in a quantified form for a given period of time in the future.

  Budgeting Process As is evident from Figure 8.5, the process to develop a budget is rooted in organisational goals and objectives and the strategies adopted to achieve them. Thus, a manager can develop projected or budgeted financial statements and supporting budgets on the basis of information about goals, objectives and strategies.

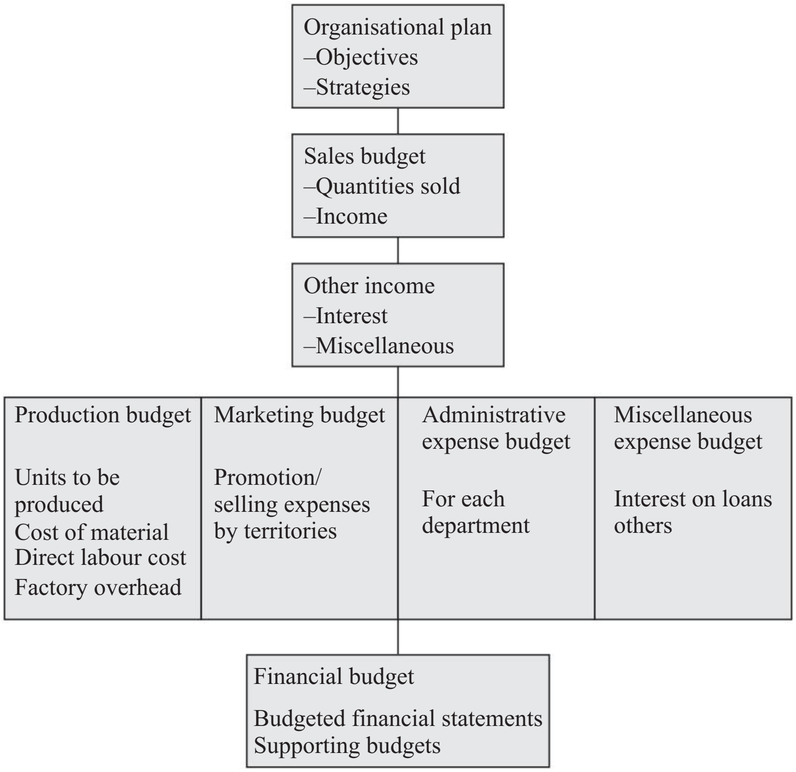

Figure 8.5 Budgeting Process

Source: Ivancevich, J. M; Donnelly, J.H & Gibson, J.L. (2004). *Management Principles and Functions*, Fourth edition, AITBS Publisher & Distributor, New Delhi. p. 83

- **Planning and Change Management:** Managers need a proper plan for introducing a change in the organisation and for managing the consequences of the change effectively. This enables the alignment of the organisation with the changing business environment. Effective planning helps an organisation adapt to a change by identifying opportunities and avoiding problems. It sets the direction for the other functions of management and for teamwork to implement the change in an effective manner. (Change Management has been dealt in detail in Chapter XXII on Change Management.)

ROLE OF COMPUTER SOFTWARE IN PLANNING

Project management softwares have come as a great aid to planners. With the use of these softwares, the process of planning, modification of an existing plan, developing contingency plans and updating of plans have become much easier. But, it is important to recognise that a computer cannot do planning on its own. It cannot set goals or objectives, nor can it define checkpoints, activities, relationships and time estimates. The project team must do these things before the computer can create a model of the required plan. It may not be advisable to use computer software for all types of planning, especially for small and simple projects.

Once a manager decides that a computer software package would be useful for the project planning and implementation, he/she can select the right package from among the large number of software packages available in the market. To select a right software package, one needs to be aware of the following facts:

- What the software is expected to do?
- What types of output reports are needed?
- Is there a need to handle resource and budget allocations?
- Is there a need for bar chart and flow chart capabilities?
- Whether there is need to put things on a calendar for the manager and concerned employees to examine?
- How much user-friendly does the software need to be?
- The reputation of the software manufacturer and distributor with respect to after-sales service.
- Cost-benefit analysis with respect to the purchase and utilisation of the software.

Before making a purchase decision, the manager should ensure that the software package for facilitating the planning process could perform at least the following functions:

1. Permits easy development and modification in the bar charts and flow charts and has a provision to incorporate notes on the critical path.
2. Permits the manager to combine resources and budget information into the project file and to develop useful reports on this information.
3. Allows the manager to tie the project plan into a real calendar, with allowances for weekends and holidays.
4. Generates alerts for the manager with respect to overscheduling of individuals or groups, as well as to errors in the logic.
5. Allows the manager to develop contingency planning and update and modify plans.
6. Allows the manager to input data on project progress so that the plan can be updated to know its actual progress.
7. Has a user-friendly manual and a good demonstration file to show the manager what the programme can do.

Before deciding on a particular software package for planning purposes, the manager can experiment with the trial version of the package on a project that has been recently completed. This would enable the manager to understand whether the package could have helped in developing and implementing an effective plan. One important fact that the manager must take into consideration is that the project management software is only a tool that helps plan and manage a project. The computer will not plan or manage the project for a manager; it is the job of a manager.

Points to Remember

1. The characteristics of planning are: (a) It is the primary and all pervasive functions of management, and it involves choosing the best alternative from the available alternatives. (b) It is an intellectual,

continuous and interdependent process, which is future- and goal-oriented. (c) It involves forecasting, so it needs to be flexible in nature.

2. Planning can be undertaken for (a) Developing the vision, mission, goals and objectives of an organisation. (b) Determining the most appropriate course of action for the achievement of goals. (c) Forecasting the future risks and threats (d) Securing efficiency, economy and accuracy in allocation of resources.
3. Planning can be classified as: Formal Planning, Strategic Planning and Informal Planning.
4. Formal planning generally follows a step-by-step process that includes environmental scanning, constructing the planning premise, forecasting outcomes and events, determining objectives, searching alternative courses of action (brainstorming, brainwriting, pin cards, product improvement check list, semantic intuition), evaluation of alternatives, selecting an alternative, formulation of derivative plans, budgeting, building agreement, implementation, and review.
5. Strategic planning done by top-level managers, produces fundamental decisions that shape and guide the direction of an organisation.
6. The strategic planning process involves the following steps: defining the vision, defining the mission, conducting SWOT analysis, setting goals and objectives, development of strategies, development of tactics and operational plans, implementation and monitoring of plans.
7. Organisational plans can be classified on the following basis: Breadth (Strategic, Tactical or Operational Plans), Time frame (Long-term, Medium-term or Short-term Plans), Frequency of use (Single-use or Standing Plans) and Specificity (Financial and Non-financial Plans; Product and Project Plans).
8. Operational plans specify the detailed steps necessary for achieving the goals established by the tactical plan. Operational plans serve as a guide for the department manager's day-to-day operations. The operational plans include policies, procedures, method and rules.
9. A single-use plan is a one-time plan, which is specifically designed to meet the needs of a unique situation. Different forms of this plan are: programmes, projects, budgets, etc.
10. Budget can be classified into different types on the basis of Time (Long-term budget and Short-term budget), flexibility (Fixed budget and Flexible budget). Financial budgets can be classified as: Revenue budget, Expenditure budget, Profit budget, Cash budget, Capital expenditure budget and Master budget.
11. Standing plans are operational plans that provide guidance for the activities that are performed repeatedly. They include policies, procedures and rules and provide readymade answers to deal with a situation.
12. Planning and control are interrelated. The outcome of planning forms the foundation for control. The output of controlling (that specifies what went right, what went wrong and what was feasible) provides the necessary input for the future planning processes.

Review/Discussion Questions

1. What is planning and what are the characteristics of planning?
2. What is the importance and purpose of planning?
3. What assumptions are necessary for undertaking planning?
4. What are essential features of effective planning?
5. What are the purpose, advantages and limitations of planning?

6. Explain various types of planning
7. Describe in detail various steps of the formal planning process.
8. Describe various idea generation techniques.
9. What is strategic planning? Elucidate the strategic planning process.
10. What is plan? Explain the purpose and classification of plans on the basis of different parameters.
11. What is budget? Explain various types of budgets.
12. What is the relationship between planning and control?
13. Due to which reasons people avoid planning?
14. Explain select applications of planning.
15. What is the role of computer software in planning?

Field Exercises/Class Exercises/Group Projects

1. Students should develop a career graph for themselves by working backwards from what they finally intend to be. Proper timelines should be mentioned for attaining different positions along with their respective salary packages.
2. Assign a project to students to plan a complete city that would be in position to meet the demands of citizens over a period of time.
3. Students should think of an instance in the past when they had to undertake extensive planning. They should relate the nature and extent of planning of that effort with the result achieved.
4. Students should employ one of the idea generation techniques to generate some new ideas/alternatives to solve an existing problem or to create something new.
5. Students can identify a particular business that they intend to invest in and undertake strategic planning for it.
6. Students should develop a vision and a mission statement along with long- and short-term goals for their institute.
7. Students should present their actual behaviour with respect to planning their activities and life, and give the reasons that might be causing that type of behaviour.

On the Internet

- Visit nnlm.gov/training/grants/program-plan-exer.doc to undertake a programme planning exercise to increase the library usage by teenagers through circulation, programming and/or database usage.

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Case Study

SUBHIKSHA

Subhiksha, which was initially hailed as Wal-Mart of India, has temporarily shut all its 1600 outlets in 110 cities. Analysts believe that there was no problem in its ‘low-cost business model’. What went wrong? The Chennai-based Subhiksha Trading Services was neck-deep in Rs. 600 crore of debt. It were not even able to pay its vendors because all its earnings were going to service the debt. The company is on the threshold of a closure as it has virtually no money to run its operations.

On one side, there is a viewpoint of imminent closure of the company. But on the other side, there is a strong case to service the company by raising additional Rs. 300 crore as a loan and restructuring its existing debt and part with same equity stake by inviting a bound investor. This would allow the company to pay off its vendors and restart its operation at the minimal level.

The company went on an expansion blitzkrieg by opening 800 stores in a year’s time. It financed its expansion through debt. The strategy was to dominate the industry and ward off the likely competitors. This expansion would have provided much needed economies—its bargaining power with the vendors to fuel its low-cost business model.

The initial sale productivity figure for Subhiksha stores was Rs. 12,500 per sq feet, whereas the stores of its size needed just Rs. 5000 per sq feet to achieve the breakeven. The new stores could not attain the breakeven levels, which levered the productivity figures. With lower sales, coupled with high debt cost. The cash-flow projections went for a six.

Some experts believe that the majority of organised retailes read the market wrongly and spread themselves too fast and too thin to benefit from scale.

The part of remedy suggested to revive Subhiksa is to close at least 40 per cent of its stores for which productivity is not that high. But, closing of stores in such a large number would jeopardise the low-cost business model because of lack of efficiency and economies of scale.

Questions for Discussion & Analysis

1. What went wrong with the planning that led to the present problem of Subhiksha?
2. How can it recover?
3. What strategic direction would you recommend for Subhiksha and why?

Chapter 9

Decision-Making

Even if you are on the right track; you will get run over if you just sit there.

—Will Rogers

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand different types of decisions
- comprehend different approaches to decision-making
- explore the techniques and strategies of effective decision-making
- know how to set effective goals
- understand the characteristics of objectives and difference between goals and objectives
- comprehend the problems related to objectives and ways to resolve them

INTRODUCTION

Although decision-making is an integral part of the planning process, yet it has been dealt as a separate chapter because it is a key role of a manager and also represents the essence of management. As it is the function of decision-making that distinguishes managers from non-managerial employees, it requires focused attention and deliberation. Decision-making is central to the job of a manager who has to constantly make decisions such as: What is to be done? Who is to do it and when? Where and how often it will be done?

Decision-making in the context of business management is usually not that easy because sometimes all the alternatives under consideration appear to be good or the available information is not sufficient to make a decision or the uncertainty associated with a decision is significant and/or the stakes are quite high. For example, the managing director of a company has to decide whether to revive a sick textile unit by modernising its plant and machinery or to sell it in its existing state. It becomes very difficult to decide if both the alternatives have some strong advantages.

The ability to make effective decisions is extremely vital to lead a group of individuals effectively. If one can learn the art of making effective decisions, then one can lead a team or an organisation to a spectacular and well-deserved success. However, if one has qualms while making decisions or makes poor decisions then one brings one's team or organisation closer to failure. Besides, one's time as a leader is also likely to be shortened significantly.

A decision is a choice from among a variety of available alternatives. A decision represents a judgement; a final resolution of a conflict of needs, means or goals; and a commitment to action made in the face of uncertainty, complexity and even irrationality[1]. Decision-making is a process of selection of a particular course of action from all possible alternatives. It is at the core of planning. A plan cannot be said to exist unless a decision—commitment of resources, direction or reputation—has been made[2].

Decision-making is a conscious human process involving both individual and social phenomena based upon factual and value premises, which concludes with a choice of one behavioural activity from among one or more alternatives with the intention of moving towards some desired state of affairs[3].

TYPES OF DECISIONS

In routine professional life, all managers are expected to make different types of decisions. The nature of these decisions is so diverse that the individual processes of taking these decisions vary widely from one another. Decisions can be made in various ways. Some decisions are made on the spur of the moment due to sudden impulse or emotion with very little deliberation. Decisions can also be made purely on account of a gut feel for which there appears to be no valid reasoning. There is another category of decision which are made after careful deliberation following a systematic step-by-step formal decision-making process.

A generic classification of decisions divides them into three categories: strategic decisions, tactical decisions and operational decisions. A brief account of these categories, given below, highlights the criticality of decisions in the functioning of a manager.

1. ***Strategic Decisions:*** Strategic decisions provide a direction to an organisation by establishing its vision, mission and long-term goals; develop strategies and take into account the resources to be allocated in order to achieve them. Strategic decision-making is critical and quite significant for the entire organisation. Strategic decisions have a profound and long-term impact on the organisation. These may also prove expensive and fatal for the organisation. Therefore, strategic decisions should be taken after careful consideration.

   High managerial competence is essential for taking strategic decisions because these decisions are very unstructured, un-programmed and most inventive. These are also the most risky and have most uncertain outcome due to the following reasons.

(a) Strategic decisions are about the long-term future for which predictions cannot be made with great accuracy.

(b) Complete or accurate information about key variables for strategic decisions is generally not available.

(c) These decision have organisation-wide implications that may result in a disastrous outcome for the entire organisation.

Due to the above stated reasons very high importance is accorded to strategic decisions, and great care is taken while taking and implementing them. Only the top management is involved in strategic decision-making. An example of a strategic decision is an organisation's decision to become either a premium player or a mass producer. The organisation could project itself as premium player by pricing its products reasonably high and earning significantly higher profit per unit on low sales. Or, it could be mass producer who prices its products quite low for capturing a huge market share.

2. ***Tactical Decision:*** These decisions are taken in order to implement and support strategic decisions. Tactical decisions tend to be of medium range with respect to time and significance. They result in moderate consequences for the entire organisation. Tactical decisions are taken by people at the middle management level, i.e. Unit Head, Division Head, etc. If an organisation decides to produce a premium product, a tactical decision might be—whether to select a brand ambassador to reflect the image of the product or not.

3. ***Operational Decisions:*** These are pre-programmed, highly structured, everyday decisions to support the implementation of tactical decisions. Operational decisions are often made with little effort because they are taken as per the clearly laid out policy manuals. These decisions have short-term impact and usually involve low cost. The consequence of a bad operational decision might be minimal, but a series of poor operational decisions can cause a serious harm to the image of the organisation and its profitability. These decisions are made by the frontline management staff, i.e. Shift Head, Department Head, Supervisor, Area Sales Manager, etc.

In another classification, based on the nature of decision-making, Herbert Simon[4] has grouped organisational decisions into two categories: programmed decisions and non-programmed decisions.

1. ***Programmed Decisions:*** These decisions are repetitive or routine and can be taken by following the established procedures and applying the rules to find the best solution. Majority of the management decisions are programmed. The major characteristics of these decisions are:
   - Managers have made the same or similar types of decisions many times in the past.
   - There are rules or guidelines to follow while making programmed decisions. The decision to re-order office supplies is a programmed decision.

2. ***Non-programmed Decisions:*** These decisions are exceptional or non-recurring, and are often made under crisis conditions that involve significant ambiguity. No specific procedures or programmes are available for making these decisions. Clear-cut and specific information with respect to all parameters, variables and facets, needed to make these decisions, is also not available. Therefore, managers have to rely on judgement, creativity, estimates and intuition while making non-programmed decisions. The characteristics of these decisions are:

- No clear-cut rule or procedure to follow since decision is novel and totally new.
- These decisions are based on limited information and a manager's intuition and judgement. The decision of acquiring a new company is a non-programmed decision.

DECISION-MAKING

Decision-making is a process by which an individual or organisation selects one position or course of action from several alternatives to arrive at a decision. This process involves identifying, analysing and choosing alternative(s) to facilitate the achievement of goals, objectives, desires, etc. Shull et al.[5] (1980) have defined decision-making as 'a conscious human process involving both individual and social phenomenon, based upon factual and value premises, which concludes with a choice of one behavioural activity from among one or more alternatives with the intention of moving towards some desired state of affairs.'

Nature of Decision-making

The process of decision-making has multifarious facets. An understanding of these facets is essential to master the art of decision-making. Let us have a look into these facets.

Rationality in Decision-making It is generally believed that professional managers and effective decision-makers would be fully rational, objective and logical, and they would be following a step-by-step systematic process for making a decision. But, it has been observed that people seldom achieve complete rationality, particularly in managing[6]. The reasons for managers to blend rationality with other factors while making their decisions are mentioned below:

- It is difficult to recognise all the alternatives, particularly in the situations where decisions involve exploring new opportunities or performing tasks that have never been done in the past.
- Decisions are generally based on experiences of the past, but they are to be implemented in the future which may or may not be similar to the past.
- The future is full of uncertainties, and it is very difficult to predict it with complete accuracy.

Sometimes, the assumptions of even the competent managers, who were involved in decision-making, about the actual market potential of the future opportunities prove to be inappropriate. The following example makes it abundantly clear. After having made the first computer, Thomas Watson, the founder of IBM, predicted that computers would remain a scientific tool for scientists, and their market would never exceed a few numbers every year. He could not imagine at that time that the computer would become a household gadget.

Limited or 'Bounded' Rationality Although a manager may try to be completely rational, yet the limitations of the availability of information, resources, intellect and time influence his/her rationality. In the 1950s, Herbert Simon, an economist, propounded the concept of 'bounded rationality[7]', which suggests that managers may not always be perfectly rational in their decision-making. Simon argued that managers, instead of searching for the perfect or ideal decision, frequently settle for an alternative that will adequately serve their purpose. Simon termed this phenomenon as 'satisficing', which actually means that managers continue to search alternatives until they identify one alternative that looks satisfactory or good enough under the given circumstances.

The satisficing approach can be considered appropriate when the cost of searching for a better alternative or delaying a decision exceeds the potential gain that is likely to happen by adopting the effort to search for the best alternative. This behaviour of a manager can best be described as limited rationality. A manager does not maximise the outcome of a decision by searching for all the possible alternatives and then choosing the best amongst them.

Role of Intuition in Decision-making In intuitive decision-making, decisions are made on the basis of past experience, gut feeling, emotions and accumulated conscious or subconscious knowledge. It must be remembered that the decisions based on intuition or gut feeling are not necessarily made independent of rational analysis. In fact, the two complement each other. A manager who has had experience with a same, or even similar, type of problem or situation often can act quickly with what appears to be limited information. What appears to be intuition is also the wisdom or accumulated knowledge that acts as the subconscious mind of the manager. Therefore, sometimes a manager doesn't know why he/she is recommending a particular decision because his/her suggestions are based on the subconscious knowledge accumulated on account of years of experience.

Decision-making under Certainty vs Uncertainty Managers are required to make decisions for events that are likely to occur in the future. And, the future is somewhat uncertain. The extent of one's assessment of the future scenario with regard to decision-making varies from relative certainty to great uncertainty.

In some situations, the decision-maker has an almost perfect understanding of the conditions surrounding a decision. In such conditions of certainty, the decision-maker is reasonably sure about what will happen when he/she makes a decision. This situation occurs when precise, measurable and reliable information is available, and the cause and effect relationships are also known to the decision-maker. Such conditions exist in the case of routine and repetitive decisions concerning the day-to-day operations within a business enterprise in the immediate future and where the impact of the external environment is minimum.

But, for other important decisions, managers may face uncertainty about the conditions that are likely to be in the near future. Because of today's complex and ever-changing business environment, managers lack exact information for making important decisions. They are not aware of all available alternatives, the risks associated with each alternative and the probable outcome of each alternative. Besides, they are not sure about the reliability of the available data. All this makes the business environment highly unpredictable. This prevalence of uncertainty brings in the element of risk in decision-making. Under such uncertain conditions, managers need to make certain assumptions about the future situation and have to depend on their judgment, intuition, gut feeling and experience along with facts and figures.

Element of Risk Most of the decisions generally involve some degree of uncertainty, which creates an element of risk. Managers cannot do anything worthwhile and achieve great heights in their career without taking adequate risks. The projects to manufacture 'Indica' and 'Nano' cars involved significant risks for the Tata Motors, but without taking these risks the company would not have achieved the phenomenal success that it later on enjoyed due to these projects.

The ability to take risks significantly impacts the choice of alternatives in decision-making. On the basis of their risk-taking tendency, managers can be categorised into three groups: risk-averse managers; those who favour a little but incremental and gradual change; and, those who are comfortable with radical, disruptive or transformational change. As the risk cannot be completely eliminated from decision-making, managers need to develop the following qualities to manage risk and make effective decisions:

- Competency to perform risk analysis.
- Ability to take calculated risks.
- Capability to be comfortable with some degree of risk.
- Understand, acknowledge and take into consideration the degree of separation anxiety that is usually associated with risk taking.

Risk Management Strategies Some risk management strategies are discussed below.

- ***Recognise the tradeoffs:*** Managers need to be aware of the benefits that are associated with making a decision and the costs that are associated with not making a decision. This information helps a manager psychologically to take the necessary risk while making a decision.
- ***Dismiss extremely remote or unrealistic possibilities:*** Managers should take only calculated risks and avoid making decisions that can lead to serious consequences if the things go wrong. One should take the risk to the extent one can manage. Too much risk in anticipation of huge profits can cause a severe loss as was witnessed in the closing of Bearing Bank after Nick Leeson performed high-risk transactions at the stock exchange.
- ***Avoid catastrophes:*** A major principle of risk management is to avoid any real risk of catastrophe at any reasonable cost. But, it is difficult to apply this principle because of the uncertainty over what is a real risk and what is a reasonable cost.

Role of Creativity and Innovation To make an effective decision, a manager need to generate a good number of alternatives to choose a particular course of action. Effectiveness of a decision depends on the manager's innovativeness as well as the number of alternatives that are generated by him/her. Some of the situations are such that require out-of-the-box thinking and development of novel solutions. Therefore, the manager and his/her team involved in decision-making need to be creative and innovative. (The phenomenon of creativity and innovation has been dealt with in detail in Chapter 21 on Creativity and Innovation in Management).

DIFFERENT APPROACHES TO DECISION-MAKING

Different approaches to decision-making in an organisational setting can be broadly classified into the following two categories:

Authoritarian Decision-making

In this approach, a manager makes the decision for the group himself or herself on the basis of knowledge he/she can gather. The decision is then announced to the group to gain their compliance with the decision. It is generally observed that less time is taken in making a decision but more time is required to explain it and gain acceptance of it.

Group Decision-making

In this approach the group develops ideas, shares ideas, analyses them and agrees upon a decision. Although, more time is taken to make decision under this approach, yet much lesser time is required to communicate it and gain acceptance for it. Therefore, additional time spent on making a decision is more than compensated by time saved on communication and gaining acceptance because people prefer to implement the ideas that were created by themselves. The group decision-making approach can be further classified in the following two categories:

- ***Consultative Approach:*** In this approach, the manager utilises the competencies of his/her group to generate and evaluate alternatives, but the final decision is taken by him/her in accordance with his/her own judgement and thinking. The views of others are taken merely as inputs for decision-making.
- ***Participatory Approach:*** Here the decision-making process is controlled by the entire group. The group leader or manager is just first among the equals. The sense of participation generates commitment and motivation of a higher order than what a manager can get by following consultative approach.

Advantages of Group Decision-making

(a) Members can pool their experiences to define a problem and develop better and more creative solutions.

(b) People work harder and more energetically to implement their own ideas than they would do to implement an idea imposed on them by others.

Disadvantages of Group Decision-making

(a) Groups can take longer to make decisions than individuals.

(b) The desire to be accepted by the group can lead to suppression of disagreements by individuals in favour of a consensus. This can eliminate or reduce creativity in decision-making.

(c) Dominant individuals can take control of the group and the outcome of planning and decision-making.

(d) Encouraging members to show commitment for the cause of the group can be a problem.

Group decision-making can be improved through following practices.

(1) Ensuring that the effort is directed towards overcoming obstacles and solving a problem rather than mere discussing the problem again and again.

(2) Distinguishing between idea generation and idea evaluation by employing techniques, like, brainstorming to protect the ideas which are raw and not fully developed, from pre-mature criticism.

(3) Ensuring that the group leader and the dominant or leading members of the group speak at the end after others have articulated their opinions, to avoid any undue influence.

(4) At the initial stage, the group leader should act as a facilitator and focus on eliciting ideas from the group members and resist efforts to provide solutions and to dominate the group.

(5) The leader needs to ensure participation of all members by creating an environment where all group members can express their opinions.

Which Approach is Best?

There is no direct or simple answer to this question. All approaches have their own limitations. A vision-led approach to decision-making is significantly dependent on the individual who provides the vision. A plan-led approach can become unduly dependent on professional planners. Implementation becomes cagey and confined to the plan. It may ignore the needs of different stakeholders. The authoritarian approach can negatively affect the employee initiative and motivation. The consensus-led approach can lead to delay and inaction unless an agreement on a decision can be quickly reached and sustained. Therefore, it is ideal to adopt a combination of approaches, considering the given circumstances.

STEPS IN DECISION-MAKING

Formal decision-making can be made effective by following a step-by-step approach. Given below is a sequential presentation of the steps involved in decision-making.

Responding to a Problem or a Situation or a Scenario

A manager faces a scenario or a situation or a problem that needs to be resolved or responded to. The element of risk involved in resolving a problem or responding to it can discourage people to make a decision and implement it. But, effective managers understand the importance of decision-making and are willing to undertake the associated risks for the gains to be achieved through the resolution of a problem or responding to it in a timely manner.

Search for Alternatives

To resolve a problem in an optimum manner, a manager starts with the search for different alternatives that can act as solution to the given situation. Generation of a number of alternatives is the first step towards making any decision. These alternatives equip a manager with a wide variety of options to make an effective and informed decision.

The ability to identify various alternatives is equally important as being competent to select the right alternative. But, the practising managers do not have an unlimited time at their disposal for generating all the possible alternatives. The process of generating ideas and options cannot go beyond a stipulated time. The following factors must be considered while determining an appropriate time span and resources that need to be spent on generating alternatives:

- ***Importance of Problem:*** Greater the importance of a problem, greater will be the requirement of spending more and more time on generating alternatives.
- ***Cost of Information Collection:*** How much information a manager should collect for making a decision depend on the availability of data and the cost of data collection and analysis.
- ***Limiting Factor:*** It is something that is likely to be a hindrance in the achievement of objectives. While identifying different alternatives, a manager should identify the limiting factor and search for the alternatives that would enable him to overcome the limiting factor. For example, in an

organisation, the existence of a very strong and violent union of employees can be a limiting factor that must be taken into consideration while identifying different alternatives with respect to any change in an HR policy. Only those alternatives need to be considered that can overcome the potential resistance from the union.

Development of alternatives in large numbers can be facilitated by implementing idea generation techniques, like brainstorming and brain writing, etc. (These techniques have been discussed in detail in Chapter 21 on Creativity and Innovation).

Evaluation of Alternatives

The generation of alternatives needs to be followed by their thorough analysis and evaluation on the basis of the following criteria.

(i) ***Quantitative Analysis:*** It comprises the analysis of factors that can be measured quantitatively to determine whether an alternative should be considered or not as a decision to resolve a problem.

- **Feasibility**: This refers to the possibility of the economically viable implementation of a particular alternative to solve a problem within the given organisational constraints (such as time, budget, technology and policies) and the limitations of the external environment. Alternatives that do not seem feasible or economically viable and appear to be impractical at the very outset should not be considered any further under the normal circumstances.
- **Cost**: This refers to the resources that would be required to implement an alternative and also the cost that is likely to be incurred on account of undesirable side-effects which an alternative may produce. The term 'cost' includes not only monetary expenditure that the company is likely to incur in the implementation of an alternative but also some intangible issues such as retaliation from different stakeholders and competitors, and the likely consequences of the alternative.
- **Marginal or Cost-Benefit Analysis:** This analysis is performed to know how the cost and revenue of a business change with the implementation of a given alternative. For example, if an organisation is making five thousand cars a month, it would be incurring a certain cost that month on their production. Besides, there would be generation of revenue by the selling of these cars. Marginal analysis assesses the change in the cost-revenue dynamics if the organisation wants to increase the number of cars produced by one, i.e. it intends to produce five thousand and one cars a month.

(ii) ***Qualitative Analysis:*** This refers to the analysis of the factors that influence the applicability of an alternative in a given context. The factors, subjected to qualitative analysis, cannot be measured and analysed in quantitative terms because they are somewhat intangible in nature. Some of the factors considered for qualitative analysis are described below.

- **Quality**: This factor refers to the extent to which an alternative is an effective solution to the problem under consideration. Alternatives that only partially solve the problem or are likely to create more problems in the future need to be eliminated at this stage.
- **Acceptability**: This factor refers to the degree of support that an alternative will get from decision-makers and its likely acceptability by those who would be affected by its imple-

mentation. This criterion is considered to be very important in evaluating alternatives as it determines the potential resistance that an idea or alternative is likely to face at the time of its implementation.

- **Ethical Issues**: This factor refers to the degree of compatibility of an alternative with the values, ethical standards and social responsibilities of an organisation and the values of the society in which it is going to be implemented.

Thus, both qualitative and quantitative factors must be considered while evaluating different alternatives. Relying solely on quantitative factors can prove counter-productive. An attempt should be made to express the qualitative factors in somewhat quantified terms, howsoever crude they might be. For example, the impact of a programme on the improvement of employee morale can be quantified and in terms of its impact on factors like employee turnover, absenteeism, grievances, etc.

Selecting Suitable Alternative from Available Options

After analysing the pros and cons associated with different alternatives, a decision-maker or his/her team has to select the alternative that appears to be most appropriate. One of the following three basic approaches can be adopted for selecting a suitable alternative.

Past experience Experienced managers generally think that their experience serves an effective guide for making correct decisions. They believe that they have reached their current position or attained success because of the proven effectiveness of the decisions that they took in the past. This reinforces their belief in the effectiveness of the methodology they adopted in the past to make their decision. They have a strong conviction that the same methodology would prove effective in the future as well. Thus, it increases the probability of a manager relying on his/her past experience to make the future decisions.

The knowledge generated by the implementation of past decisions need to be documented and properly analysed to arrive at a cause and effect analysis for future decision-making. But, blindly following the past experience can be dangerous. Ideally, a careful analysis of the past experience is needed to identify the actual reasons behind the success or failure of a decision/alternative.

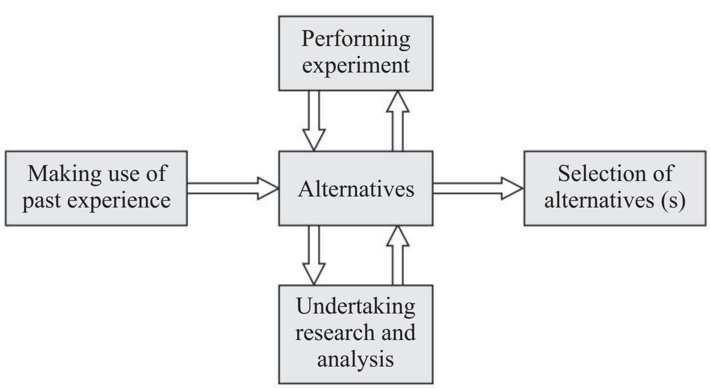

Figure 9.1 Selection of Alternative(s)

Professionally managed companies are making every effort to convert data with respect to their past experience into a valuable information tool for future use. Computer-models based on past experiences and trends are used extensively today. High-speed supercomputers can analyse a very large amount of data related to past happenings and develop extremely sophisticated and refined models (on the basis of past trends) that can guide managers to predict the future behaviour to and thus accelerate the decision-making process.

Experimentation The second approach to select a suitable alternative is to implement the available alternatives in a limited and controlled environment and observe the consequent results. The alternative that delivers the best possible result can be selected in the form of a decision. It is strongly suggested that this technique should be employed more often in managerial decision-making situations. But, the experimentation technique has the following limitations:

(i) It can require heavy capital expenditure.

(ii) It can be very time consuming.

(iii) There can be a requirement of deploying a large number of personnel for the conduct of experiments.

(iv) A large number of alternatives might have to be tried out to select the best possible alternative.

(v) Even after getting favourable results from the experimentation on a sample, manager cannot be sure whether the outcome of the experiment would be proven right in the future for the entire population or not. This is because of the fact that the future may not be the duplicate copy of the present.

(vi) Today's competitive and fast-changing world may not also allow the luxury of extended experimentation. Therefore, this technique should be used only after all other alternatives have been explored.

Advantages of Experimentation Despite the limitations cited above, the experimentation method of selecting an alternative from various options has the following advantages.

1. There are many decisions which cannot be made solely on the basis of the past experience or research and require conducting of experiments.
2. It is preferable for a company to test a new product in a selected market, which is a microcosm of national market to derive various learnings before marketing the product nationally. This is done to test the product and other elements of marketing-mix on a limited scale but in a real situation.
3. Before implementing an organisational change/tool/technique in the entire organisation, it can be implemented in a branch office/department/plant as an experiment to gauge the employee response and understand implementation difficulties. The learnings from the limited implementation can be integrated into the intended change to have optimum results.
4. In some situations, an organisation may find out with the limited experiment that the suggested intervention is inappropriate for the organisation. This can help in avoiding the embarrassment of failure for the management and waste of its precious time and money.

Research and Analysis Research involves a systematic approach to solve a particular problem by understanding it, collecting data from a representative sample, analysing the data to develop and test different theories, identifying cause-benefit relationships among the critical variables, and then deriving certain conclusions and pertinent recommendations to solve the problem.

This approach to select the variable is more useful when major decisions have to be made. It is likely to be far cheaper than experimentation when a large number of alternatives have to be evaluated. By undertaking research before proceeding to the experimentation stage, a manager can save a huge amount of money by reducing the number of prototypes to be tested during experimentation. The options that appear to be unviable or non-feasible during research and analysis can be outrightly rejected. Secondly, the product design can be modified as per the recommendations emerged during research and analysis to develop better prototypes for testing through experimentation.

Simulation through computer models is a great help in research and analysis. Different likely outputs can be generated by feeding the data on to decision variables in simulation software. Problems can also be conceptualised in mathematical terms and evaluated for performance by assigning different values to the factors expressed in the form of mathematical equations. As more and more information and experience comes in, models keep on getting refined enabling better and effective decision-making.

Which approach is ultimately used for selection of an alternative in a managerial decision-making is decided by the situation. Different tools would have different levels of appropriateness for different situations. Some situations may warrant a mixture of all the three approaches (judgement based on past experience, research and analysis, and experimentation) for selecting the right option from the available alternatives while making a decision.

Implementation, Monitoring and Feedback

Once an alternative has been selected, it needs to be implemented. It is in the interest of the management to constantly review the implementation of the alternative. This review generates new knowledge or information that needs to be analysed and examined as a feedback. Analysis of the feedback might create the need for making supplementary decisions to address some concerns which were overlooked earlier or could not be foreseen by the decision-makers. Managers need to have an open mind to incorporate changes in the original decision on the basis of feedback.

There could also arise a situation where the original decision needs to be reversed because the post-decision scenario did not turn out to be as it was expected. In such situations, the entire decision-making process needs to be undertaken again with a fresh perspective.

DECISION-MAKING STRATEGIES

The process of choosing a particular course of action from the available alternatives can be simple or complex depending on these factors: importance or criticality associated with a decision; number and quality of alternatives; and, availability of time and resources. On the basis of these factors, the following strategies can be used for making a decision.

1. ***Optimising:*** This is a strategy of choosing the best possible solution to a problem. It is implemented by discovering as many alternatives as possible and choosing the very best. Its implementation is dependent on:

   (a) Time that is available for solving a problem
   (b) Cost for generating different alternative solutions
   (c) Availability of resources, knowledge, etc.
   (d) Attitude and values of the people involved
2. ***Satisficing:*** In this strategy, the first satisfactory alternative is chosen as a decision rather than identifying the best alternative. The word 'satisficing' has been coined by combining the words 'satisfactory' and 'sufficient'. For many small decisions, such as where to eat, what to eat, which pen to use, and so on, the satisfying strategy is ideal.
3. ***Maxi-max:*** This strategy described as the strategy of the optimist, stands for 'maximise the maximums'. It focuses on evaluating and then choosing the alternatives based on their maximum possible payoff. In this strategy, favourable outcomes and high potentials are the areas of concern. This strategy is effective in an environment where risk-taking is accepted/encouraged without too many penalties.
4. ***Maxi-min:*** This strategy, described as the strategy of the pessimist stands for 'maximise the minimums'. In this strategy, the worst possible outcome of each decision is considered, and the decision with the highest number of minimums or negative outcomes is chosen. The maxi-min strategy is good when the consequences of a failure decision could be very harmful.

HOW TO MAKE THE DECISION AND DECISION-MAKING EFFECTIVE

The managerial approach towards decision-making has moved from an instinctive, rule-of-thumb approach to a more scientific, quantitative and objective one, which can be applied by employing sophisticated computer software models. The following practices can enable a manager make effective decisions.

- ***Augmenting knowledge:*** Lack of knowledge arising from inadequate information, awareness and experience in problem-handling can lead to ineffective decisions. Therefore, a continuous effort need to be made by the organisation to equip its managers with relevant knowledge and skills to widen their knowledge base.
- ***Unbiased judgment:*** A manager has to make an effort to be unbiased in his/her judgement. The following four practices can help a manager make unbiased judgements.
  - Understanding and being aware that the possibility of biasness generally exists.
  - Understanding how biasness can affect the judgement and the consequent outcome.
  - Analysing past decisions to determine how biasness may have affected them.
  - Accepting that biasness can be minimised through diligence, if not eliminated.
- ***Being Creative:*** Creativity leads to development of original, novel responses to a particular situation. Managers can enhance the effectiveness of their decisions by being creative and encouraging creativity among their team members. One needs to check one's assumptions to cultivate creativity.
- ***Using Intuition:*** Intuition does not merely mean guess work. It is actually a cognitive process which enables a manager to make a decision based on his/her accumulated knowledge and experi-

ence that is stored in the subconscious mind. While employing intuition, a manager knows what needs to be done, but cannot give a specific reason why he thinks so.

- ***Right Timing:*** A manager needs to ensure that not only the decision being taken is right, but the timing of its implementation is also appropriate. Some times great ideas and decisions also fail because they are well ahead of their times.
- ***Critical Approach:*** A manager needs to develop a competency to distance himself/herself from his/her own decision and look at it hypercritically, as if it belongs to someone else.
- ***Alignment with Overall Goals and Objectives:*** The decision taken by a manager should contribute to the overall goal and objectives of the group or organisation.
- ***Open-mindedness:*** One should not fall in love with one's decision. A manager should always be receptive to be redefine/modify his/her decision if it is not working.

TECHNIQUES FOR EFFECTIVE DECISION-MAKING

A wide range of decision-making techniques, from very simple to highly sophisticated ones, is available to enable managers make effective decisions. They can employ these techniques in making rational decisions with the given information. The techniques are helpful for managers due to the following reasons.

- They help identify and analyse the role and importance of individual factors in a particular decision.
- They help in choosing the best or the most optimum course(s) of action using the available information to make a decision.
- They provide a visible, structured and orderly analysis of factors involved in a decision so that the decision-maker can consider them in a thoughtful and coherent manner.
- They bring out the likely consequences of different decisions and help the manager choose the right option.

A manager can select a particular decision-making technique on the basis of importance and complexity of the decision and the information that he possesses about the variables for a given situation. Select decision-making techniques have been classified and discussed in the following section.

Simple Techniques of Decision-making

Simple decision-making techniques can be employed in an environment that has a relatively small number of factors and a lesser degree of complexity. Some simple decision-making techniques are discussed below.

(a) ***Whether-type Decision-making Techniques:*** These techniques can be employed in situations that involve two-possibility decisions—yes/no, either/or, etc. These techniques are of three types as described below.

1. **T-Chart:** A T-Chart is an orderly representation of different features that need to be taken into consideration while making a decision. In this technique, positive and negative attributes of a decision are listed in the form of a table to ensure that both the attributes are taken into account while making a decision.

A manager can choose a particular option if the benefits derived from it justify the cost involved with respect to that decision in a given context. If there are two possible choices, then both alternatives are listed in a tabular form, and the good points or arguments in favour for each alternative are listed in two different columns. This classified information can help a manager decide which of the two options appears to be better. Similarly, a list of negatives for each alternative is also developed in the other table.

Limitations: The major limitation of this method is that it only presents different factors related with a decision in a classified manner. It does not provide any information with respect to the relative importance of these factors. Mere awareness about these factors without any objective analysis of their importance may not be optimally useful for making an effective decision.

2. **Plus Minus and Interesting Analysis (PMI):** Edward de Bono has refined the T-Chart technique into a three-part structure which he calls PMI or 'Plus Minus and Interesting'. In this technique, a manager first lists all the plus or good points of an idea or a decision, then all the minus or negative points of the idea and finally all the interesting points about the idea. The 'interesting' category includes factors such as consequences, areas of curiosity or uncertainty, and attributes that are difficult to be clearly classified as either good or bad. The 'interesting' category allows a manager to explore ideas or choices that are outside the context of judgement.
3. **Buriden's Ass:** This decision-making technique is used when a manager has to select from two or more but equally attractive alternatives. It derives its name from an old fable of an ass who stood between two equally nice bales of hay. The ass couldn't decide which bale to turn to because they were both so attractive, and so it starved to death from indecision. Managers are also too often faced with a situation where both or all the alternatives appear to be equally attractive, and they have a difficulty in deciding which of the available alternatives they should leave.

   The implementation of this technique requires listing of all the negative points or drawbacks about each possible alternative to resolve a given situation. The Buriden's Ass method focuses on the drawbacks of the available options to enable an individual select the one with the least amount of negative consequences.

(b) ***Which-type Decision-making Techniques:*** These techniques are employed in situations that involve selecting a course of action from several alternatives with several selection criteria. Some of these techniques are described here in brief.

1. **Measured Criteria:** In this technique, a manager lists down the criteria on which a decision has to be based. Each criterion is assigned points based on its relative importance to the decision. The manager can use a scale of 1 to 10, 1 to 100, or any other range that appears appropriate to assign the points.

   Once all the alternatives have been assigned their due points for each criterion, all the points for each alternative are added up, and the alternative with the highest total points is the one that could be chosen as a decision.

For example, Alankaar, a production manager, is thinking about different options related with the modes of transport that he can buy to reach his office. Alankaar's office is located at a distance of four kilometres from his home. The three options he has are: a good cycle, a scooter and a second-hand small entry-level car. He can list down the criterion to make a decision as: acquiring cost, maintenance cost, status value, multiple utility, speed, risk and health. Then he can assign points for these criteria on a scale of 1 to 100. Subsequently, he can assign different marks to the three alternatives out of the marks allotted to each criterion and develop a matrix like the one given in Table 9.1.

Table 9.1 Measured Criteria Matrix

Criteria	Possible Points	Modes of Travel as Alternatives		
		Good Cycle	Scooter	Second-hand Small Entry-level Car
Acquiring cost	15	15	10	5
Maintenance cost	10	10	7	4
Status value	20	2	10	16
Multiple utility	15	2	8	12
Speed	5	1	3	5
Risk	15	3	7	10
Health	20	18	2	5
Total Marks	100	51	47	57

Alankaar can calculate the total marks for all the three alternatives and choose the alternative with the highest marks. In this case, second-hand car with 57 points appears to be the best alternative for Alankaar, considering his different needs from a vehicle.

The main advantage of the measured criteria technique is that it identifies all criteria affecting a decision and takes into account their relative importance for making a decision. The decision so made is based on objectivity, and subjectivity is significantly reduced. The limitation of this technique is that the decision arrived at is as good as the wisdom of the decision-maker because there is significant subjectivity in identifying the criteria and assigning relative weights to each criterion.

2. **Decision Matrix or Weighted Decision Table.** This technique is a slightly more sophisticated version of the measured criteria technique. In this technique, a decision matrix is created with the alternatives written at the top as columns and the criteria on which the alternatives need to be evaluated listed on the sides as rows. Each criterion is further assigned a weight depending on its relative importance in the decision.

   All the alternatives are ranked for each criterion on the basis of how well they meet a given criterion. Instead of ranking the alternatives from one to the total number of alternatives, relative ranks can be used to rank them. For example, 10 could be the best possible and 1 very poor. There are two advantages of the second method:

(a) Very low and very high rankings can be moved apart: a ranking of 1 out of 10 is much lower than 1 out of 6.

(b) Two alternatives can be given the same ranking in points.

Thus, the absolute scale, whether 1 to 10 or 1 to 100, gives more flexibility than the one-out-of-number-of-alternatives scale. After ranking all the alternatives, the ranks attained by an alternative for a criterion are further multiplied with the weightage assigned to that criterion. Total points are added up for different alternatives. The alternative with the highest total is the alternative chosen.

Complex Techniques of Decision-making

These are powerful techniques of decision-making. These are routinely used in managerial decision-making in situations where the number of factors and the corresponding complexity is very large. In such situations, the choice of the best course of action and mapping out the likely consequences of decisions are relatively difficult. Some of the complex techniques of decision-making are described below.

(a) ***Pareto Analysis:*** Pareto analysis was developed by Vilfredo Pareto[8], an Italian economist who developed the Pareto principle. According to this principle, by doing select 20 per cent of the work, one can generate 80 per cent of the advantage of doing the entire job, and vice versa. The figures 80 and 20 are illustrative and could vary slightly for different situations. Pareto also observed that 80 per cent of the problems are caused by the 20 per cent of the causes, whereas 20 per cent of the problems are caused by 80 per cent of the causes.

Pareto analysis is a technique to identify the most important problems to be solved, or find out the changes that will give the biggest benefits. It is useful in situations where many problems or possible changes are competing to emerge in the manager's eyes as the most important problem or change to be tackled first.

How to Use Pareto Analysis

- **List the problems faced or the options that are available**: The manager needs to develop a list of the problems that he should solve. If the list is long, then some of the problems can be grouped as if they are the different facets of the same larger problem.
- **Apply an appropriate score to each group**: Different problems or groups need to be scored by the manager by collecting the data about the frequency at which all the listed problems have occurred in a particular time period. For example, if one is trying to improve customer satisfaction, one might score on the basis of the number of different types of complaints lodged by the customers or the nature of different types of repairs done or warranty claims resolved.
- **Work on the group with the highest score**: The first group or problem that needs to be tackled is the one that has the highest score. This one problem will give the biggest benefit if it is solved. The problems with the lowest scores will probably not even be worth bothering as solving these problems may cost more than their solutions are worth.
- **Root Cause Analysis:** The manager can authorise the collection of data to develop and test theories with respect to the root cause of the problem to be solved. There might be many

causes for a particular problem, so the manager needs to decide and select the most significant cause of the problem.

- **Develop strategy to eliminate the root cause**: By removing the root cause the majority of reasons of the main problem faced by an organisation would be resolved.
- **Select the next most severe problem**: After solving the major problem, the manager can move to the next most severe problem. Then the entire process is repeated for solving this problem, and the cycle is repeated again and again to achieve continuous improvement by focusing on the most severe problems, one at a time. Resolving serious problems, one after the other, gives major benefit to an organisation.

(b) ***Paired Comparison Analysis:*** Paired comparison analysis is a decision-making technique that helps a manager in determining the relative importance of different courses of action that are available to make a decision, especially when the objective data with respect to different options is not available. This technique is an ideal tool for comparing 'apples with oranges', i.e. completely different options, such as whether to invest in advertising or in a new automation system.

This technique is particularly useful in situations where priorities are not clear or are competing for importance with one another. It provides a framework for comparing each course of action against all other alternatives, one by one and highlights the difference in their importance. Thus, it makes it easy for a manager to choose the most important problem to solve, or select the solution that will give the greatest advantage. It also helps in setting priorities where there are conflicting demands on resources.

Paired comparison analysis compares each option with all other alternatives. For each comparison, the manager decides which of the two options is more important and then assigns a score to show how much more important it is over the other option. Following steps are employed to use this technique.

1. **Step I:** List the options that have to be compared.
2. **Step II:** Assign an alphabet to each option.
3. **Step III:** Present different options as row as well as column headings in the form of a matrix.
4. **Step IV:** The cells on the table which compare an option with itself or where there is a duplication are blocked out.
5. **Step V:** Within the remaining cells, the option in the row is compared with the one in the column. For each cell, the manager has to decide which of the two options is more important by writing down the alphabet of the more important option in the corresponding cell. The score on the basis of the difference in importance, ranging from 0 (no difference) to 3 (major difference), has also to be provided in the cell.
6. **Step VI:** Finally, consolidate the results by adding up the total of all the values for each option (alphabet). These values can be converted into a percentage of the total score.

(c) ***Grid Analysis:*** Grid Analysis [also known as Decision Matrix Analysis, Pugh Matrix Analysis or Multi-Attribute Utility Theory (MAUT)] is a very useful decision-making technique in the situations where a manager has to make a choice from several alternatives by taking into account many factors that must be considered in order to make a right decision. This is an effective technique to make important decisions where a clear and obvious preferred option does not exist.

How to Use Grid Analysis

The step-by-step guide to use grid analysis technique in decision-making has been explained below.

1. **Step I**: List down all options as row labels on a table.
2. **Step II**: List different factors as column headings.
3. **Step III**: Assign weight to each factor on the basis of its relative importance in the decision. These weights can be from 0 to 5. It is acceptable to have different factors with the same importance.
4. **Step IV**: Determine score for each option from 0 (poor) to 5 (very good). It is not mandatory to have a different score for each option.
5. **Step V**: Multiply each of your scores from Step IV by the values for relative importance (weight) determined in Step III. This provides the weighted scores for each option.
6. **Step V:** Add the weighted scores to have an overall score for each option. The option that scores the highest can be selected for making a decision.

(d) ***Decision Trees:*** Decision trees are graphical representations of a multi-stage decision problem, where multiple independent decisions are made one after the other, and each decision gets affected by the previous decision and also affects the next decision.

Through the application of decision trees, a manager can form a clear picture of the risks and outcomes that are associated with each possible course of action. Thus, this technique is useful for selecting an appropriate alternative from different strategies, projects or investment opportunities, particularly when the resources are limited, by projecting the likely outcomes or consequences of different options. It proves to be an effective method of decision-making because of the following reasons:

- It clearly lays out the problem or a situation so that all options can be analysed and evaluated.
- It allows for in-depth analysis of the possible consequences of different decisions beforehand.
- It provides a framework to quantify the values of different outcomes and the probabilities of achieving them.
- It helps in making effective decisions on the basis of existing information and best estimates.

How to Use Decision Trees

A step-by-step guide to employ the decision trees technique is described below.

1. **Step I**: Determine the decision that has to be made.
2. **Step II**: Draw a small square to represent the decision that has to be made at the centre on the left-hand side of a large paper.
3. **Step III**: From this box, draw out lines towards the right for each possible solution or option, and write a short description of the solution along the line. Keep the lines apart as far as possible so that different options can be expanded further.

4. **Step IV**: At the end of each line, consider the results. If the result of taking that decision is uncertain, a small circle has to be drawn. If the result is another decision to be made, draw another square. Squares represent decisions, and circles represent uncertain outcomes. Write the decision and the uncertain outcome above the square and the circle, respectively. If the solution is completed at the end of the line, it is left blank.
5. **Step V**: From the decision squares, lines representing the available solutions or options are drawn out. From the circles, lines representing possible outcomes are drawn by making a brief note on the line describing what it means. This needs to be done until all the possible outcomes and decisions that could be visualised as originating from different original decisions have been outlined.
6. **Step VI**: The manager should review the tree diagram once the decision tree is developed. Each square and circle has to be analysed in-depth to find out whether there are any solutions or outcomes that have not been considered. With the decision tree, the manager can have a good understanding of a range of possible outcomes of the decisions.
7. **Step VII**: **Evaluating the Decision Tree:** At this stage, the option that has the greatest worth in a given situation has to be identified. To do this, the manager can assign a cash value or score to each possible outcome and make the best assessment of how would the organisation benefit if that outcome came about.
8. **Step VIII: Estimating the Probability:** The manager needs to look at each circle (representing an uncertainty) and estimate the probability of each outcome. If the percentages are used, the total must come to 100% at each circle. If fractions are used, then these must add up to 1. If the data on past events are available, then the estimates of the probabilities can be determined, otherwise the best possible guess can be written down.
9. **Step IX: Calculating Tree Values**: Once the values of the outcomes have been worked out and the probabilities related with uncertain events have been assessed, the manager can start calculating the tree values that will help him/her to make a decision. He/she needs to start on the right-hand side of the decision tree, and work back towards the left. As one completes a set of calculations on a node, one can record the result. All later calculations that repeat this result can be ignored.
10. **Step X: Calculating the Value of Uncertain Outcome Nodes:** The value of uncertain outcomes (circles on the decision tree) can be calculated by multiplying the value of the outcomes by the probability of its happening. The sum of the values so obtained is the total value for that node of the tree.
11. **Step XI: Calculating the Value of Decision Nodes:** While evaluating a decision node, the manager needs to write down the cost of each option along each decision line. Then the costs need to be subtracted from the outcome value that has already been calculated. This gives a value that represents the benefit of that decision. When the decision benefits have been calculated, the manager needs to choose the option that has the largest benefit depicted in the form of the highest value of that decision node.

It must be remembered that decision trees are one of the important tools of the decision-making toolkit of a manager. They should be employed in combination with common sense.

POINTS TO BE KEPT IN MIND WHILE MAKING A DECISION

Along with the adoption of structured decision-making process and use of different decision-making techniques, managers should also give due consideration to the following elements to make their decisions more effective.

(a) ***Six Thinking Hats:*** This tool, developed by Edward De Bono[9], highlights the importance of looking at different alternatives and decisions from varied perspectives. It emphasises that if a decision-making process is examined from a different perspective, new inputs would emerge for consideration to further refine the decision in a timely manner. The manager would also have a better knowledge of how the same decision would be perceived differently by different stakeholders.

(b) ***Cost-Benefit Analysis:*** It is always vital to perform a cost-benefit analysis for different alternatives under consideration to know whether a decision makes financial sense/viability or not? If the benefit of a decision is more than the corresponding cost, it adds value and should be taken into consideration. On the other hand, if the cost of a decision is more than the likely benefit then it depletes value and should be avoided if there are no other compelling reasons to go ahead.

(c) ***Avoiding Groupthink and Groupshift:*** The two phenomena of groupshift and groupthink influence decision-making in a group setting. Groupshift refers to the tendency of the members of teams or groups to exaggerate their initial positions and shift their attitude towards more extreme decisions after a discussion within the group. Therefore, the viewpoint of the group on account of groupshift becomes more extreme than it would have been if the individuals were working alone. For example, if in one group caution dominates then the decision of the group is likely to be more conservative than it would have been if the members of the group were making decision individually. More often, the evidence indicates that groups tend towards a risky shift.

Groupthink happens when the group decides upon a course of action which is accepted by a majority of its members, before actually discovering all the alternative solutions to the problem. It is the tendency of cohesive groups to value consensus at the price of decision quality. Due to groupthink the members' desire for cohesiveness and unanimity overrides their motivation to realistically appraise alternative courses of action.

In groupthink, the expression of deviant, radical, minority, moral and unpopular views gets restricted under group pressure. This can dramatically hinder the performance of groups because some members might not express their frank views in a meeting or a group so as not to break the harmony and consensus of the group.

(d) ***Impact Analysis:*** This is a decision-making tool and an approach to identify, understand and predict the 'unexpected' consequences of a decision. This analysis is an attempt to minimise the risk that is associated with the decision-making. Managers need to perform impact analysis to reduce the level of unforeseen risk.

(e) ***Inductive Reasoning:*** Inductive reasoning should be employed to draw good generalised conclusions while making decisions.

(f) ***The Ladder of Inference:*** This decision-making technique lays emphasis on avoiding the tendency to 'jumping to conclusions' while making decisions. Premature judgements or drawing conclusions that are based on incomplete information in a short time can act as a big limitation in the path of effective decision-making.

(g) ***Prioritisation:*** Prioritising requirements and determination of criteria that are going to influence the outcome of the decision need to be taken into consideration in advance while making the decision. This leads to the best use of available time and resources in making effective decisions for achieving group goals and objectives.

(h) ***Reactive Decision-making:*** Usually decisions are made under the pressure of limited availability of key resources like investment, time, human resources, etc. Therefore, managers need to develop the skill and learn the art to make good decisions under pressure in such a way that they respond to the situation rather than reacting to it.

IMPLEMENTING A DECISION

A manager's responsibility is not over after making an effective decision. He/she has to ensure that the decision is rightly communicated and gets properly implemented so that organisational goals and objectives are accomplished. The following actions can ensure the implementation of the decision in an optimum manner.

- ***Making an Action Plan:*** For effective and efficient implementation of a decision, a detailed action plan needs to be prepared. The action plan should clearly describe the manner in which the decision would be implemented. It would also list the actions to be taken for the implementation of the decision.
- ***Communicating a Decision:*** Once a decision is made, it needs to be communicated to the individuals who are directly or indirectly affected by it. The information should be communicated in such a manner that people understand it and feel encouraged to provide their support for the effective and efficient implementation of the decision.
- ***Communicating the Reason behind the Decision:*** Everybody who has to implement a decision needs to fully understand why that specific decision has been taken. Explaining the reasons behind a decision can lead to a motivated implementation effort.
- ***Delegating Some Actions:*** Breaking tasks associated with a decision into manageable parts and then delegating them to individuals within the team makes their performance easier.
- ***Discussing the Progress of a Decision:*** By having productive meetings to discuss the progress in the implementation of a decision, the manager can ensure timely implementation of the decision.
- ***Overcoming Objections:*** A manager should not simply ignore the objections or brush them aside as this can lead to misunderstandings. The objections could be a useful source to improve the quality of a decision and its implementation. The manager should be behaviourally equipped to handle people issues while handling the objections.

DECISION-MAKING: A CRITICAL ANALYSIS

Managerial decision-making is normally perceived to be a rational step-by-step analysis. But, the reality is always not like that. While examining 25 major business decisions, Mintzberg found that in every case the deliberation by the top management focused on only one option. They were all go/no-go issues and did not involve multiple options.

Peters[10] (1979) analysed the working of advanced decision-making systems in about two dozen corporations in the United States and Western Europe for a period of over two years. The findings of this study can be summarised in the following four points.

1. Senior managers usually receive for review a single option (one new product, one acquisition target, one major investment proposal) rather than a set of options to choose from. They usually face yes-or-no decisions rather than trade-offs. But, it is not wrong to have just one option if that is an option the senior manager wants to see. Top managers' yes-or-no decision on the proposal is a check on its direction and not on its optimality. It is a signal to the team that whether they have understood what the top management expects from them.
2. Senior management spends most of its time fighting fires, and due to this; the decision on critical issues is generally delayed significantly.
3. Senior managers are likely to be shielded from bad news for months together. Hitler became aware of losses in World War II very late—only when the Allies started bombing Berlin.
4. Really important decisions emerge only after top managers have been indecisive for months or years, and the solution they choose at the end may well be indistinguishable from what was proposed at the beginning of the search.

GOAL

A key outcome of decision-making is setting of goals and objectives. The decisions about goals and objectives have a significant impact on the survival and growth of the organisation.

Although goal-setting is a part of planning and has been discussed in brief in Chapter 8 on Planning, yet this phenomenon is being described in detail in this chapter because it is so vital for the success of any managerial effort.

A goal represents the final intent and expected end-result of a specific activity or the project. By defining a goal, the manager can mentally start at the finishing line and then work backwards to create a plan to achieve the goal. The clearer an individual is about the intended end-result (even though it may change with time), the more effectively he/she can plan a way to achieve it. Philosophically, this has also been termed as 'beginning with the end in mind'.

For example, in a jigsaw puzzle, there are a large number of pieces and other necessary resources to solve it. From where one should ideally begin to solve it? The answer could be: by looking at the picture on the cover of the puzzle box. The picture provides a clear idea of what the puzzle will look like once all the pieces are assembled properly. Now, with this picture in mind, one can start from one of the corners or at the centre to solve the puzzle. It is like starting literally at the end-result, and then planning and executing the work to reach final goal.

Criteria of Effective Goal

Before learning how to determine a goal effectively, it is of paramount importance that one first understands what exactly constitutes an effective goal. The criteria of an effective goal are described below.

1. ***Acceptance Criteria:*** A goal must have a clear, definitive and agreed upon end-result termed as 'acceptance criteria' that would determine the satisfactory completion of the project/task/activ-

ity. By referring to the acceptance criteria, one can clearly demonstrate whether a goal has been accomplished or not. Therefore, the goal of any managerial effort should include the following elements:

(a) What is the desired end-result of the project/task/activity?

(b) What is the scope of the project/task/activity?

(c) What determines the customer's or end user's acceptance of the project/task/activity?

If people, who are managing and making contribution to an effort, cannot aptly answer these questions, they cannot be expected to make an optimum contribution to the goal of the assigned task. Ideally, there should be an agreement with respect to the acceptance criteria between the assigning authority (customer or top management) and the person(s) who have been assigned the responsibility to get the task completed. At the outset, everyone concerned with the goal must have the same understanding of this end-result of the intended effort. This understanding of what exactly will meet the acceptance criteria of the deciding or assigning authority enables a manager to determine the exact parameters of the effort's end-result.

2. ***'SMART' Criteria:*** An effective goal has five distinct characteristics: Specific, Measurable, Agreed-upon, Realistic and Time-bound (SMART). These aspects, which are likely to create a focus and commitment for the attainment of the goal, are described below.

   (i) **Specific**: A goal should be specific, well-defined and clear so that anybody associated with it can understand what is expected to be accomplished. It should be so clearly laid out that in the absence of the manager or team leader, somebody else could pick up the statement of the project's goal and know what exactly has to be accomplished.

   The apt goal statement enables an effective manager kick-start the effort smoothly with fewer chances of confusion and ambiguity. Accomplishing a goal that lacks clarity requires a greater effort due to lack of direction.

   (ii) **Measurable:** To successfully manage an effort, its goal should be defined in such manner that a manager can define the goal in specific terms. This would help him/her at the end of the project to compare the outcome with the goal to verify whether the intended goal has been achieved or not. If the goal has not been accomplished, the extent of deviation from what was intended to be achieved would become evident.

   It's **wrongly** believed that some goals cannot be measured. The reality is that the majority of goals can be measured; it is just that some goals can be measured more easily than others. If specific goals are not possible, then a manager can develop some crude measures in order to know what needs to be done and to analyse the optimality of the ongoing performance. Time should be spent on developing measurable standards for the more ambiguous goals. If one can't set a standard for an effort, one can't manage it effectively.

   The measurable goals give the entire team a sense of direction, a clear target they could aim at. They could also measure their own progress in terms of what has been accomplished and what is left. Even if there is no definitive measurable end date, a manager needs to establish one. This can be done by arranging the likely activities in a chronological order to construct a fairly accurate timeline for the completion of the project. In 1961, President John F. Kennedy announced to the world that the American space exploration effort had developed new technologies regarding rocket fuel and that before the end of this decade man would travel to the moon and back to the earth safely. President Kennedy did provide a measurable parameter; the end of the decade (before December 31, 1969).

(iii) **Agreed upon:** Ideally, there should be an agreement about the goals at the start. The project manager, end-users (customer or senior management) as well as subordinates in the organisation, who have to execute the project, should preferably agree that the project goal is desirable and its outcome would solve a problem or respond to the need that led to the initiation of the project. The widespread agreement with the goal upfront makes it easier for the manager to develop a viable plan, build commitment towards the project and later on implement it without much resistance. This agreement also makes it easier to build acceptance for the changes/modification in the goal at a later stage.

Sometimes, reaching agreement can be difficult and might require extensive dialogue and sharing of information to help all parties understand each other and build a consensus. But, this process usually helps the manager understand what the customer/end-user/team members really need. Those needs should be given due consideration while defining the agreed upon goal. It is important to document the agreement. Even if the approval and agreement for the goal is verbal, the manager should record it as having received with date, time and the setting in which it was provided.

(iv) **Realistic:** Goals must be realistic. Too often managers set goals that are impossible to achieve with the given resources, knowledge and time. Most of the time, projects are assigned by managers with a given deadline without ascertaining their feasibility. These managers set themselves and their respective teams up for frustration when their projects cannot possibly be completed on time.

One benefit of having a dialogue during the goal-setting process is that it helps in determining whether a goal is realistic or not under given circumstances and with available resources. All the assumptions need to be questioned explicitly at the start to determine the feasibility of the goal. Even when the subordinates say, 'Yes, we can get that thing done', the manager should make an effort to determine whether they believe in it or they are just saying it because they don't want to say 'no'. He/she can do this by discussing with the subordinates the resources and time needed to achieve the goal. This would help in determining how realistic the goal is and how much they know about it. These deliberations may lead to adjusting the goal, deadline and required resources to make the goal more realistic. These deliberations would ensure a higher probability and commitment for completing the task in the agreed upon time.

If the project is different from what a manager or a team has done before, he/she should set aside time for research, information collection and learning or perhaps for engaging consultants or for hiring new project members. The project might go slowly in the beginning due to the time spent on determining the feasibility of its goal, but it is essential to find out whether goal and accompanying deadline are feasible or not.

(v) **Time Bound (cost frame):** Finally, for the goal to be effective, the manager needs to determine a clear time (cost) frame for the accomplishment of goal. It should be known to the manager that how much time and budget is there to complete the project. Is there any flexibility in the deadline? Is there any flexibility about the resources that are available for the project?

A reasonable deadline needs to be set according to the available resources and the knowledge and experience the manager in handling similar projects. If a manager feels that the timeline is not realistic, he/she should simply inform his/her superior quite early that the deadline is not realistic using conventional project phasing. The manager should also explain why he/she considers it to be unrealistic. He/she can provide supporting evidence to strengthen his/her argument. If the deadline cannot be altered, special steps should also be suggested to meet the original deadline. The early communication about the project deadline helps the team leader as well the assigning authority to plan for contingencies.

Approaches Towards Goal-setting

The goal-setting process can start in one of the two ways described below.

(a) ***Top-down approach:*** The top management, end-users or customers tell a manager what to do. Thus, the goal is provided to the manager from the top.

(b) ***Bottom-up approach:*** The subordinates tell the upper management what they see as the likely goal for the task or the project. They can write down what they think the project goal could be and communicate it to the concerned authority for their approval and consent. Then the end-user or the upper management has the option to say: 'Yes, I agree. That's correct. Proceed.' or 'No, that's not what could be acceptable under given circumstances. This is what the situation requires.'

The subordinates go back and forth in a dialogue with the concerned authority as they move closer to achieving clarity about the direction and the end-result of the effort.

How to Set Effective Goals?

One or more goals can be set single-handedly by an individual or by establishing an agreement about the target of the assigned task with the team that is formed to handle a task or a project. It requires special talent which is achieved through experience and experiential learning. Goal setting can be made effective by following the guidelines mentioned below.

- *Asking Questions:* The manager can initiate development of effective goals for a task or any effort by asking the following questions:
  - Who is the end-user of the task/effort/project?
  - What does the end-user—client, customer or management—want?
  - What does the end-user say about the nature of the responsibility of the manager in project execution?
  - What does the end-user care about?
- *Defining the Scope of Endeavour:* To set effective goals, managers need to first properly define the scope of the endeavour. Many managers feel that they do not have the luxury of time to properly define the scope of their work, but they always have ample time to fix it later, and that too with extra money!

Even if an assignment seems to be easy, the team leader should be cautious because sometimes the assignment might turn out to be more complicated than it seems. Easy projects can also spoil the reputation of experienced managers. Therefore, while defining goals, things should not be taken for granted, and time should always be spent in defining and clarifying the scope of the project.

- ***Building Agreement at the Top:*** It is important to understand that what a manager thinks that the end user needs may be the same that the end user has in mind or it might be slightly or entirely different. Therefore, after defining the goals, the team leader or the project head has to ensure that the end-user agrees on the project goals and the criteria for acceptance. The manager must put in the effort to get the agreement of the end-user recorded.
- ***Communication for Building Understanding:*** Once the goal is decided and agreed upon between the end-user and the manager, the manager needs to ensure upfront that all connected with the project understand exactly what the end-user has agreed to.

It is always useful to adopt an analytical approach to the goal-setting process. The team leader should spend adequate time in investigation, exploration, substantiating goals, defining and then communicating the goals. The manager's effort in goal setting often brings to attention the technical aspects required to complete each activity and thus, formalising the basis of a detailed execution plan.

Points to be Kept in Mind in Determining Goals

In addition to the above guidelines, the managers involved in goal setting can take into consideration the following points:

1. ***Being humble, seeking the advice and consulting with others:*** Discussing activities in detail with others to better understand what must happen and when enables a manager to set effective goals. If the project involves work from other departments, seeking advice and suggestions from the heads of those departments in goal-setting will inevitably make a contribution to the achievement of the goals.
2. ***Coordinating responsibilities with others:*** Effective managers do not have to be technical experts and are not expected to know everything about managing a business, projects or task. They should seek inputs from the experts of that area and facilitate the overall effort.
3. ***Two-way conversation:*** The manager must develop a methodology to record the discussions and conversations with respect to goal setting. If necessary, the manager must revert to the persons he/she had conversations with, to provide them the opportunity to clarify and seek their agreement. This is needed to overcome any misunderstanding later. A manager should not hesitate to undertake this effort as others at the top are not likely to feel negative about the manager who wishes to ensure better understanding.
4. ***Additional interim goals:*** Occasionally, additional interim goals may be required along with the pre-decided goals to facilitate effective accomplishment of tasks.

Things to be Avoided, while Setting Goals

1. ***A manager should not get involved in a "he said-she said" conflict:*** A manager should be focused on full understanding and achievement of the end-result as per the expectations of the

end-user. He/she must not waste time on finding justifications for the tasks not performed as per expectation.

2. ***Avoid using jargon in goals:*** The manager should keep the definition of the goal simple, which can be understood by one and all in similar terms.

OBJECTIVES

Once a manager has established the over-arching goal and has a clear idea of what the project or activity should finally deliver, he/she is ready to define it in more detail to establish objectives. The implementing team would find it difficult to operate simply with a goal and needs more details and specific definitions of different aspects of the effort to execute the plan in order to achieve the desired goal successfully. Objectives are the guiding principles that direct the effort of the team members towards achieving the goal. In other words, an objective depicts the contribution that is expected from different team members for the achievement of the goal.

Key Points of Objectives

1. Objectives focus on the details and add specificity to the goal by specifying what needs to be accomplished by whom.
2. Objectives add the sequential logic necessary for developing the execution plan. They provide a basis for a logical order of activities and events that are required to achieve the goal. These activities need to be measured, monitored and, if need, be adjusted for the achievement of the goal.
3. Objectives set target for the people involved in a project. Accomplishment of all the objectives of the project leads to the achievement of the overall goal.
4. In setting objectives, communication is the key. A continuous dialogue between the manager and those who will work to accomplish objectives needs to occur so that realistic and agreed upon objectives are established. The dialogue also establishes a sense of ownership of the objectives. The dialogue the team members willingly own the responsibility for an objective, then the probability of its successful achievement is enhanced significantly.
5. An objective must also be specific, measurable, agreed upon, realistic, and time (cost) framed. Therefore, the same SMART criteria (discussed earlier for goals) needs to be applied to determine each objective.
6. The manager needs to develop a clear written statement for each objective to carefully and correctly explain to the team members what is to be accomplished and when. What criteria would measure the success of an objective when it is accomplished should also be included in the statement of the objective.
7. The manager should identify with the key project team members, resources and inputs necessary to accomplish the objective.
8. Each person involved with the project should be made to understand how his/her responsibility is linked and related with the fulfilment of the responsibility of others working for the project, and how the attainment of his/her objectives is linked with the overall goal.

Problems Related to Objectives and Ways to Resolve Them

Just like goal-setting, objective-setting also poses difficulties to people. Many times objective-setting doesn't work out as it is required. The following reasons can be ascribed to the difficulties.

- ***Focusing too much Objectives:*** Objectives alone are not enough. Sometimes, people are so occupied with the details of their objectives that they lose sight of the big picture: the overall goal of the project or the organisation. For example, over-emphasis on departmental objectives can be detrimental for the attainment of the organisational goal. The key to avoid a predominant focus on objectives is to ensure proper visibility and acceptance of organisational goal. The manager must constantly remind the team members of the organisational goal, and exactly how they are contributing to its achievement.
- ***Clash of Objectives:*** The manager must understand that as the project progresses, personal or departmental objectives become the focus of the team members, and it is easy for them to lose sight of their objectives as members of the cross-functional team that is executing the project. Sometimes people accomplish their objectives in such a manner that makes it more difficult for other team members to accomplish their objectives. The manager must remind those responsible for fulfilling the objectives as to why and how their efforts support the successful completion of the project and contribute to the realisation of the organisational goal.
- ***Responsibility but not Enough Authority:*** Another frequently cited reason that hinders the accomplishment of objectives is entrusting the team members with limited responsibility or no authority at all. This is essentially the case where organisational objectives are being achieved through cross-functional teams. The team-members selected to participate in the project have two bosses—their department manager and the project manager. The project accounts for only a small part of the responsibility of the team members. Their primary duties and responsibilities are dedicated to departmental matters, and the department manager evaluates these people at the end of the year, not the project manager. So, if there is any conflict in what the project manager or the department manager tell an employee to do, the employee is likely to ignore or put off the project manager, and make the department manager happy.

Goals Vs Objectives

Although the terms goals and objectives are used interchangeably in layman's language and even in management literature, yet they are two distinctive terms having a subtle difference in their meanings. A manager needs to understand the subtle difference between these two distinct but complementary plans of action. The goal depicts the actual end-result of a plan and the deadline for its accomplishment. On the other hand, objectives represent all that has to be done to reach the goal.

If goals provide the direction, then the objectives represent the detailed roadmap that enable a team to reach the destination represented by the goals. Thus, setting up of goals has precedence over the determination of objectives. In essence, objectives are similar to goals, but they are focused on sub-parts of a goal. They may be termed as sub-goals or performance goals or operational definition of the overall goal. So, if objectives are derived from goals then the accomplishment of objectives in a desired manner can lead to the attainment of goals.

Points to Remember

1. Decision represents a judgment; a final resolution of a conflict of needs, means or goals; and a commitment to action made in the face of uncertainty, complexity and even irrationality.
2. Decision-making is a process of selection of a particular course of action from all possible alternatives.
3. Different categories of decisions are: Strategic or Long-term decisions, Tactical or Short-term decisions and Operational decisions, Programmed or Non-Programmed Decisions.
4. Although a manager may try to be completely rational, yet the limitations of the availability of information, resources, intellect and time influences his/her rationality. This is termed as Limited or 'Bounded' Rationality.
5. Managers, instead of searching for the perfect or ideal decision, frequently settle for an alternative that will adequately serve their purpose. This phenomenon is termed as 'satisficing'.
6. Intuitive decision-making is done on the basis of past experience, gut feeling, emotions and accumulated conscious or subconscious knowledge. What appears to be intuition is also the wisdom or accumulated knowledge that acts as the subconscious mind of manager.
7. Risk cannot be completely eliminated from decision-making. Therefore, managers need to practise risk management strategies.
8. Different approaches to decision-making are: authoritarian decision-making, group decision-making (consultative approach and participatory approach).
9. The steps in decision-making are (a) Responding to a problem/situation/scenario (b) Search for alternatives (c) Evaluation of alternatives through quantitative and qualitative analysis (d) Selecting suitable alternative on the basis of past experience, experimentation and research, monitoring/review and feedback.
10. Important decision-making strategies are: Optimising, Satisficing, Maximise the Maximums (Maxi-max), and Maximise the Minimums (Maxi-min).
11. A goal represents the final intent and the expected end-result of a specific activity or the project.
12. Criteria of effective goal are: establishment of acceptance criteria and 'SMART' criteria (Specific, Measurable, Agreed-upon, Realistic and Time-bound).
13. Goal-setting approaches can be classified as: Top-down approach and bottom-up approach.
14. Objectives depict the contribution that is expected from different team members for the achievement of the organisational goal.

Review/Discussion Questions

1. What is a decision and what are different types of decisions?
2. What is decision-making? Also discuss the nature of decision-making.
3. What is the role of rationality, uncertainty, intuition and risk management in decision-making?
4. Explain various steps of the decision-making process.
5. What is the role of creativity and innovation in decision-making?
6. Explain different approaches to decision-making.

7. Describe in detail the systematic decision-making process.
8. Discuss various strategies for effective decision-making.
9. Discuss various techniques for effective decision-making.
10. Outline the importance of planning for decision-making.
11. Explain various elements that must be taken into consideration while making a decision.
12. Define goal and explain the criteria of effective goals.
13. How can a manager set effective goals? Discuss the points to be kept in mind while determining goals.
14. Explain different approaches of goal-setting.
15. Define objective. What are the characteristics and advantages of objectives?
16. What is the difference between goals and objectives?
17. What are different problems related to objectives and how to resolve them?

Field Exercises/Class Exercises/Group Projects

1. Students should think of the last major decision they made in their life and determine the methodology adopted to reach that decision. How does their methodology compare with formal decision-making process? Had they adopted the systematic step-by-step decision-making process, would the result have been better? If yes, then why?
2. Students should critically examine their current decision-making pattern and approach. What is the extent of rationality, intuition and risk undertaken by them to reach a decision? Is it right or need to be somewhat modified?
3. Students should think of some ethical dilemma that they faced while making a decision in the past. How did they resolve the dilemma?
4. Students can be asked to apply an appropriate decision-making technique to make a crucial decision, like choice of specialisation, purchase of first car, buying a house, etc.
5. Students should perform a goal-setting exercise for their life in which they set specific objectives for different time periods.

On the Internet

1. Log on at nasa.perbang.dk to play an internet game—The Nasa Exercise: Lost on the Moon—to learn decision-making process
2. Visit http://wilderdom.com/games/descriptions/SurvivalScenarios.html to play survival scenario exercises to hone your decision-making skills in a group setting.
3. Visit http://www.uprm.edu/etica/PDF/Web/Pedagogical/DecisionExercises.pdf to attempt different decision-making exercises in business settings.
4. Log on to http://www.coastal.com/site/news-press/press-releases/zoom-team-decision-making-exercise.html to build cross-functional decision-making capabilities through team decision-making exercises.

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Case Study

ICL

What next?

After being repeatedly rejected by the BCCI (Board of Control for Cricket in India) in his bid to secure the rights to broadcast the official cricket, Subhash Chandra, the CEO of Zee Television, launched the ICL (Indian Cricket League) in 2007 to create content for the Zee Television Network.

ICL

Chandra predicted in October 2008, that the 'ICL will reach a turnover of Rs.1000-1200 crore in 2010-11 and will then make a profit of Rs. 300 crore'. After nearly six months of this prediction, an almost opposite situation has developed. Virtually all its players and coaches have terminated the contract with the company because of their urge to return to official cricket. Besides, they were not paid any salary for nearly six months.

In order to block the growth of the ICL and knock it out of contention, the BCCI took various stringent measures. It refused the ICL the use of its stadiums and debarred the players having connection with the ICL to play official cricket (domestic as well as international). It lobbied with cricket boards of other countries and influenced them to debar the players having any connection with the ICL to play any form of domestic as well as international cricket in their country. Due to the financial clout of the BCCI, other boards heeded to what was asked for by the BCCI.

Contribution of ICL

The ICL gave a phillip to the birth of much successful IPL, which was officially launched by the BCCI but on a format that is very much similar to the ICL. The ICL offered an opportunity to brands with smaller advertising budget, who found it difficult to associate with the official version of cricket because of huge advertising rates.

Financial Performance of ICL

Chandra is the owner of all the teams and the event as well. This structure of ownership creates a question mark with respect to the credibility of competition among the teams. This is an issue for the sponsors and media buyers. As a result, the ICL drew a blank in its first edition and was also losing Rs.1 crore per match in the second season, when it was called off in the wake of 26/11 terrorist attack in Mumbai.

Current Scenario and Future Prospects

There is a question-mark on the future of the ICL. Its third season has almost been called off, and there are no concrete plans for the near future. The ICL is devoid of players as well as coaches, and nobody seems too keen to associate with the ICL, because no one wants to take the risk of isolation from the official cricket.

There has been pressure of the ICC on the BCCI to hold talks with the ICL to resolve the deadlock. But, the BCCI has clearly articulated that they are willing to talk provided the ICL is officially withdrawn. There are also rumours that the BCCI can also think of offering the franchisee of one of the IPL teams to the ICL provided they fall in line with the demand of the BCCI.

Questions for Analysis and Discussion

1. What went wrong with the decision of launching the ICL?
2. What are the lessons in this case study for a first-time entrepreneur who is in the process of making a decision with respect to starting an innovative business?
3. Do you agree with the stand and stringent measures taken by the BCCI and why so?
4. What should the promoters and managers of the ICL do now?

Chapter 11

Power and Authority

Power is not only what you have but what the enemy thinks you have

—Saul Alinsky

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand power and different types of authority
- know how to empower yourself and others
- understand centralisation and decentralisation, and why centralisation fails to deliver after some time
- know how to attain the right balance between centralisation and decentralisation
- appraise delegation, levels of delegation, factors affecting it and steps in the delegation process
- know the reasons of failure of delegation, consequences of poor delegation and steps to improve delegation

INTRODUCTION

Managers rely upon power and authority to influence people to make commitments to the goals of the organisation and to get things done from their subordinates. How appropriately managers use their power, influence, and authority can determine their effectiveness in achieving the goals of the organisation.

Most managers feel they need more power than what they possess at any point of time. No matter what is their level, setting or function; most of them feel that their situation would have been better if they had more power. In organisations following remarks are often heard: 'If only I had the necessary authority to get those people on track…', 'If only I had the power to influence my superiors…', 'What I need to get this thing done is more authority …' On the other hand, select highly successful managers understand that power is critical, dynamic and prevalent all around; what they need to do is to learn how to acquire it? The challenge is to find a mechanism to tap this energy to harness and channelise its force and enhance their personal power beyond the authority given by the organisation.

DEFINITION

Weber's dictionary defines power as an individual's ability to achieve his or her own will even against the resistance of others. Power in the context of an organisation is the ability or the potential ability of an individual or a group to exert influence on the beliefs or actions of other persons or groups in the organisation beyond their authority, which is derived from their position.

Thus, the key element with respect to power is the 'ability or potential to influence' as the means for affecting others. The central determinant of power is 'what others (subordinates, peers and associates) perceive one to be possessing' rather than what one possesses. The manner in which a manager projects himself/herself, people's interactions with him/her and his/her managerial style influence the perception of his/her power over others and thus affects the ability of the manager to influence the behaviour of others.

In most instances, managers do not need to offer incentives or threaten retribution to get employees to do what they request. Their power influences employees because the employees want to follow. This power to influence comes from the employee granting authority to a manager or supervisor. This concept of 'Bottom–up authority' or 'Acceptance theory of authority' was first proposed by Chester Barnard who stated that managers only have as much authority as the subordinates allow them to have, and the level of their authority depends on the extent of its acceptance by the subordinates.

Power can be found in managers or informal leaders. But one should know how to make use of this power and at the same time also have an ability to gain support from others for the same. Many people prefer to work for managers who know how to use power to get the things done. An efficient manager uses his power to:

- get above average results.
- get above average recognition, remuneration and reward for their subordinates.
- get good positions and promotion for their subordinates by highlighting their usefulness for the organisation.
- give early warnings to their team members based on the information that they possess about the potential policy shifts, thus allowing them to be better prepared for eventualities.
- talk to the top management to resolve the issues and concerns of their team members.

TYPES OR SOURCES OF POWER

The power of a manager or an individual has been conceptualised as coming from one of the following sources.

(a) ***Formal Power or Position Power:*** Also termed as 'authority', it is a type of power that is based on a manager's individual's position in the formal hierarchy of an organisation. Following are different types of formal power.

1. **Legitimate Power**: Often called 'institutional power' or 'formal authority', legitimate power is based on the internalised belief that a particular person has the legitimate right to influence others or to take certain type of actions that others have an obligation to comply with. This power has been conferred on the person by virtue of his/her holding a position of authority in the formal hierarchy of an organisation.
2. **Coercive Power**: Coercive power depends on the perception of the subordinates that their manager has the ability to punish or withhold valued resources from those who would not engage in a desired behaviour. Reaction or response to this source of power is due to the fear of negative consequences that might occur if one fails to obey an order or do a particular work. This power can be implemented through criticisms, reprimands, issuing a written warning or calling for a written explanation, negative performance appraisals and even sacking an employee from his/her job.
3. **Reward Power**: It is the opposite of coercive power as it is based on the manager's ability or the perception of the subordinates about the manager's ability to grant valued resources such as money, rewards, recognition, etc. to others. The manager's ability to distribute rewards makes the subordinates comply with his/her orders to get reward.
4. **Resource Power**: Managers usually have access to resources and are in a position to use discretion on how much resources need to be given to different employees. The manager's access to resources and his/her ability to use discretion in sharing these resources with others provide him/her with resource power.
5. **Information Power**: Power can also result from the control or access to some important or unique information that is considered valuable by others. Managers have access to a wide variety of information some of which is sought after by others for their benefit. The ability to use discretion in sharing information with others provides information power to managers. For example, a team leader or a sales manager has certain sales leads that which are of great value to salespersons. The sales manager has some discretion in deciding which information has to be passed onto whom. Because of their access to important information, sales managers are in a position to exercise power and influence over the sales staff.

(b) ***Personal Power:*** One need not hold an influential formal position in an organisation to have this power. This power comes from a person's individual characteristics or personality traits. Following are different types of personal power.

1. **Expert Power**: It is based on the perception that an individual has some special knowledge, skill or information relevant to the task or problem at hand. Due to this expertise, special skill or knowledge, an individual is in a position to exert some influence on others.

   Expert power is proportional to the amount of expertise a person possesses as well as how much it is valued by others. Those who do not have expert knowledge or experience need the expert's help and, therefore, are willing to be influenced by the expert. For example, a person is competent to use several software programmes proficiently and can navigate the Internet with ease and others not knowing much about the computer are somewhat dependent on him/her to do their computer-related tasks. Therefore, the concerned person is treated like an expert. Those who need his skill are likely to accept his/her influence in some matters.

2. **Interpersonal Skills**: The behavioural or communication skills of some individuals greatly influence other persons who feel happy to work for those who command these skills.
3. **Empathetic Ability**: Some individuals have a special gift to empathise with others in time of their need, and benefit them in some way. The individuals possessing this capability hold some power over others.
4. **Persuasive Ability**: Due to good communication skills, some individuals can persuade others to do desired tasks. Due to the persuasive ability of such individuals, others feel obliged to follow their orders.
5. **Ability to get Results**: Some individuals have the unique ability to produce good or above average results. This ability gives them a perceived superiority due to which they enjoy some power over others.
6. **Relationship Power:** This form of power is based on a feeling among some individuals to foster a social, working or professional relationship with a specific person for some potential, direct or indirect gain.
7. **Referent Power**: This form of power is based on the need and desire of individuals to identify or relate with a person who has desirable resources or personal traits. It develops out of the admiration for the concerned person and a desire to be like that person. The followers of this person have a perception that fulfilling his/her requests will help in developing a favourable interpersonal relationship that may lead to some future benefit.

   When people are admired or liked by others and demonstrate social attractiveness, charisma or *referent power* may result because others feel attracted towards them and are more likely to follow their directions. Leaders such as John F. Kennedy were able to use their referent power to effectively influence others.
8. **Charismatic Power**: This form of power is an advanced form of referent power coming from an individual's personality and interpersonal style. Charismatic leaders get others to follow them because they have a unique persona, or can take personal risks. They engage in a behaviour that most others consider as worthy of their respect.

Comparison between Personal and Position Power: A Critical Analysis

Position power comes from the position that a person holds. This is a restricted view of power as it assumes that the scope of the power of an individual is fixed to an extent granted by the individual's position. On the other hand, personal power resides in the personal characteristics of an individual. It represents a set of skills and abilities possessed by an individual. It refers to the ways in which an individual works and responds to others in face-to-face situations. Most importantly, it does not come with an 'office' but moves with the individual.

There are limits to the amount of position power that one can use. For example, how many times can one fire someone, or give a raise or a promotion? Secondly, the leaders of cross-functional teams usually do not have any kind of position power over their team members who have been nominated by other departments just for the purpose of a task or a project. By contrast, there is virtually no limit to the amount of personal power that one person may possess in relation to others. We can conclude that the managerial power is the sum total of position power and personal power.

AUTHORITY

Managers rely upon both power as well as authority to ensure that their subordinates do what is desired from them. Authority is the legitimate power of a manager to direct his/her subordinates to take action within the scope of the manager's position.

Weber defines authority as a form of domination which the subordinates or followers consider being legitimate. Legitimate domination does not necessarily imply any sense of rationality, right or natural justice. Rather, domination is legitimate when the subordinate accept, obey and consider it to be desirable, or at least bearable and not worth challenging.

Authority is the legitimate right of a person to exercise influence, make decisions, carry out actions and to direct others. For example, managers expect to have the authority to assign work, hire employees and order merchandise and supplies.

The ultimate formal authority to make decisions in an organisation rests with its owners. They formally distribute their authority to different positions throughout the organisation, from top to bottom, through the creation of a framework of formal and informal organisation structure to facilitate the individuals occupying those positions to get their job done.

Types of Authority

Authority can be classified into different types on the basis of mechanism through which it is instituted in the organisation. Three forms of authority are briefly described below:

1. ***Line Authority:*** It is the direct supervisory authority which flows as a chain of command from the superior to the subordinates throughout the entire organisation as an unbroken line of reporting relationships. It defines the formal decision-making structure of an organisation. It helps employees know to whom they are accountable and to whom they should report to and go to for a solution in case of a problem.

   Managers, who are part of the line authority, take decisions, give direct orders, evaluate the performance of their employees, and reward or punish them on the basis of their performance. At the same time, they are fully accountable for the results that they are expected to deliver.
2. ***Staff Authority:*** It is an authority that is based on expertise. It is usually exercised by advising line managers in making decisions (what to do and how to do it) by providing them technical assistance or advice. This authority is restricted to advice and influence. Staff functionaries are advisers who aid line managers but do not have the authority to make final decisions themselves.
3. ***Team Authority:*** This form of authority is granted to committees, task forces or teams involved in special projects or the organisation's daily operations. These teams are generally empowered to plan and organise their own work and to perform that work with a minimum of supervision.

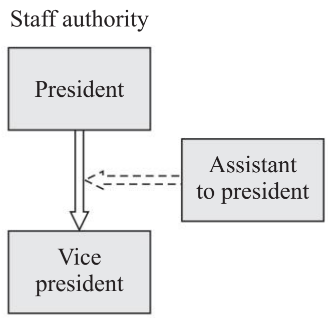

Figure 11.1 Staff Authority Depicted through Dotted Line

EMPOWERMENT: EMPOWERING ONESELF AND OTHERS

Power and its distribution has been identified by researchers as a key factor that greatly influences the performance of a branch or a department or a unit of a company. A unit whose manager shares his power with other functionaries performs better than another similar unit working under identical organisational policies, procedures and structures. A consistent finding is that the managers of under-achieving units hoard power, while those of high-performing units share power.

A rope was installed all along the assembly line at the New United Motors Manufacturing Inc. (NUMMI) plant, a joint venture between General Motors and Toyota. All employees of the plant were given the power to pull that rope and shut down the assembly line to correct a manufacturing problem that might affect the entire assembly line. Subsequently, defects and waste at the NUMMI plant declined substantially. As demonstrated by the NUMMI example, when the employees feel that they have power, they want to make a difference, and this results in productivity improvement.

Empirical studies on diverse occupations such as sales, teaching, insurance underwriters, postal service carriers and assembly-line workers have reported significant relationships between the performance and the use of different power bases. The less the team members perceive the team leader to be using position power, the greater are the levels of the members' involvement and open upward communication. This leads to the higher productivity level of the team.

Empowering Oneself: How to Use Power Effectively?

Managers must develop the competence to acquire and use power effectively. The skill with which one employs power determines not only the quantum of output but also the kind of relationship that one is likely to have with one's subordinates. The subordinates respond in one of the following three ways when their superior uses power.

(a) They demonstrate commitment to the suggested request and enthusiastically engage in the desired behaviour.

(b) They comply with the request because they feel they have to, but they probably do not do anything beyond what is minimally required.

(c) They may resist by fighting back or fail to follow the request.

All managers desire that their subordinates should respond with option ‘a’ and display commitment for the suggested request. Preferably, they won’t like their employees to respond as per option ‘b’ and definitely not as per option ‘c’. Managers by following the below mentioned practices can learn the art of using their power affectively to generate commitment, or at least, willing compliance of their subordinates to their requests.

(i) ***Building and Using Referent Power:*** Referent power evolves from the respect and admiration of the subordinates or team members for their leader. A manager can establish or enhance his/her referent power by treating the subordinates in the following way.

- Dealing with each subordinate or team member fairly.
- Standing up for the team in time of need.
- Having face-to-face interaction with each individual on the team.
- Showing consideration for the needs of the team members.
- Displaying empathy with their feelings.

Referent power can also be created by setting an example. The manager should set an example of what he/she expects and wants from others. By doing things himself/herself, the manager can ask the team members to do similar things that they would otherwise be unwilling to do themselves. When Daryl Leonard-Hartley, CEO at Hyatt Hotels, wanted his employees to understand the importance of customer service, he donned a bellman’s uniform and worked at the lobby of the Chicago Hyatt.

Referent power can be strengthened by directly one’s action towards organisational goals. If quality is important for business, then the manager needs to emphasise quality in all he/she does—from the correspondence that is sent out to the supervision of the manufacturing process.

(ii) ***Building and Using Expert Power:*** A manager can’t influence others just because he/she perceives himself/herself to be a technical expert. Others should also equally recognise that the manager is a competent and credible expert and a source of information and advice in a particular domain.

Some of the practices that can help a manager establish his/her expert power over the subordinates are described below:

(a) Making an attempt to stay current and up-to-date because one can’t maintain the image of an expert unless one keeps up with the latest developments in the field and be professionally active.

(b) Ensuring that others are aware of his/her formal education and relevant work experience.

(c) Ensuring that significant accomplishments of the manager are known to the subordinates.

The manager must keep the following points in mind while trying to establish his/her expert power.

(a) The manager must understand that there are likely to be negative reactions from people if he/she flaunts the expertise and experience too often. So, the manager needs to be tactful while presenting himself/herself as an expert.

(b) While demonstrating his/her expert power, the manager should not try to convince others by belittling their arguments or making them feel unintelligent. He/she should not treat the objections, concerns or suggestions of others as unimportant, trivial or insignificant.

(c) Recognising the contributions of others, respecting their self-worth and incorporating their useful ideas into action plans, encourage the perception of the manager's expertise among others.

It is quite possible that the manager may not always be an expert in all the activities that he/she is expected to manage. Others in the team or task force may be better experts than the manager in their respective areas. In such situations, the manager by drawing upon the expertise of the knowledgeable team members, can produce a better output. For doing that, a manager needs to be sufficiently familiar with the work and competencies of others and also respect their viewpoints so as to coordinate and integrate their efforts and activities. In this manner, a manager achieves expert power over the subordinates even though, strictly speaking, he/she may not be an expert.

(iii) ***Using Legitimate Power in a Polite and Logical Manner:*** Authority can also be exercised by making a legitimate request. A manager is likely to encounter less resistance if he/she makes it easy for others to go along with his/her order. One way to do this is to communicate with the team members in a 'polite' way by using words like 'please'. This is especially important for those team members who are sensitive to status differences and authority relationships (for example, someone older than the manager).

Another way to make it easy for others to go along with the order is to explain the reasons behind it. The team members are more likely to follow the leader when they see the order leading to fulfil ment of agreed-upon objectives. A manager can explain to the subordinates the entire decision-making process step-by-step so that they can see why a particular decision was made by rejecting other alternatives.

Finally, if the situation requires, the manager can link the order with official documentation such as written rules, policies, contract provisions and schedules to make the team members understand that the order is within the scope of his/her authority. The subordinates feel encouraged when they see that a legitimate higher authority is on their side.

(iv) ***Using Reward Power:*** The manager should give rewards in a manner that expresses his/her personal appreciation for team members' efforts and accomplishments. Studies show that the recipients of rewards like those people who repeatedly give rewards in an acceptable manner. Interpersonal relationships are more satisfying when they are viewed as expression of mutual friendship and loyalty rather than an impersonal economic exchange.

However, it may not be always possible for a manager to use the reward power effectively because of the following reasons.

- Many managers lack control over the provision of attractive financial rewards.
- In team-based functioning, it might be difficult to provide rewards and incentives to individuals who have delivered a superior performance than others.
- Objective indicators to measure the performance may not be available for many kinds of tasks.
- It is not that to determine the appropriate quantum of rewards by observing people's behaviour.

Many problems are associated with relying too heavily on rewards as a source of influence. Some of them are described below.

(a) The manager may obtain compliance with the promise of rewards, but an individual's long-term commitment may not be won over by the reward promise. Gary Yukl[1], in his book *Leadership in Organisations*, points out that when people perform tasks to obtain a promised reward, they perceive their behaviour as a means to an end.

(b) The reward-oriented behaviour may tempt people to take shortcuts and neglect the less visible aspects of the task in their hurry to somehow complete the assignment to obtain the reward.

(c) With the coming in of rewards, the relationship of the employees with the management tends to become defined in purely economic terms.

(d) Special rewards are expected everytime the employees are entrusted with a new or an unusual task.

(e) Most managers run out of tangible rewards, as the employee expectations keep rising.

(f) Using reward power can lead to resistance and resentment because the employees may start feeling that the management is manipulating them by the contingent ('If you will do this, I will do that') nature of their relationship.

Rather than using rewards as the only explicit incentives, managers need to reinforce the desired behaviour more subtly by rewarding the intrinsic needs, like recognition and self-esteem, and by providing opportunities and challenges for growth. This can win over the commitment of individuals in a long-lasting manner.

(v) ***Using Coercive Power:*** Effective managers avoid using coercive power except when absolutely necessary because it is likely to create resentment and erode their personal power base. There is little chance of gaining commitment with coercion. Even willing compliance is difficult to achieve. Coercion is most appropriate when it is used to stop a behaviour that is detrimental to the organisation (e.g. theft, sabotage, violation of safety rules, insubordination, etc).

Strategies of 'positive discipline', rather than scaring people with threats or sample doses of punishment, can induce subordinates to assume responsibility for helping in resolving the discipline problem. Here are some guidelines for employing positive discipline.

- Make the employee aware of the rules and penalties for violations beforehand.
- Provide sufficient warning before resorting to punishment.
- Gather facts and analyse them diligently before using reprimands or punishments.
- Administer warnings and punishments in private.
- Use appropriate punishments in accordance with the nature of violation.
- Administer discipline consistently, fairly, promptly and in a transparent manner.
- Stay calm and avoid appearing hostile while administering discipline.

Empowering Others

Along with the knowledge of how to use one's power, it is equally important to understand how to empower others. The empowerment of the subordinates and team members encourages and motivates them to make full use of their intelligence, potential and natural drive on their own. Successful managers know that empowering their subordinates by sharing power and responsibility, does not reduce their own power. Rather, it makes the subordinates and team members more committed and responsible.

Some methodologies that can enable a manager understand the nuances of empowerment and how to do it effectively are discussed below.

- ***Providing Necessary Resources and Authority:*** Empowering the subordinates means giving them the necessary resources, required information and authority to make things happen. Managers need to give their subordinates and team members the goals and then provide them with adequate freedom to operate. This offers them a good chance to put in their best to attain the desired results.
- ***Believing in the Team:*** It is essential that a manager should feel confident that his/her subordinates have a fairly good idea of how to perform the assigned tasks and improve their productivity. This positive belief and attitude is a necessary precondition for any manager to consider empowering the subordinates.
- ***Demonstrating and Communicating Trust in the Subordinates' Competencies:*** Managers should not only trust the competencies of the team members and subordinates but also demonstrate and communicate the same. With this endeavour, the self-confidence of the subordinates is enhanced. It also generates a desire in them to be responsible and perform the assigned tasks beyond expectations.
- ***Involving the Subordinates in Key Decisions:*** Managers can involve the subordinates in the key decisions concerning in the project or the task that is assigned to them. This sense of participation in determining and deciding what they are going to do creates real empowerment of the subordinates. Managers can involve the subordinates in decision-making at different stages mentioned below:
    - (a) Deciding the objectives of the project.
    - (b) Determining the roles and responsibilities for different team members.
    - (c) Developing a detailed action plan.
    - (d) Deciding allocation of necessary resources to get things done.
    - (e) Designing and executing administrative and discipline issues related with the subordinates.

The subordinates' participation in decision-making does not absolve the manager of his/her preparation for the same task. He/she needs to be fully prepared beforehand with his/her version, viewpoint and description of the activity or the task on which the participation and involvement of the subordinates is sought. This creates an image that the manager is not purely delegating something he/she does not want to do on his/her own. Rather, the subordinates are being approached for their advice on issues for which the manager also has an action plan.

Therefore, it is the combined effect of empowering oneself and others, that creates empowered team members and subordinates. The process of empowering oneself and others is not contradictory but complementary. By empowering the subordinates, a manager can have a better probablility of accomplishing desired tasks successfully than otherwise.

CENTRALISATION VS DECENTRALISATION

Organisations need to decide the degree of dispersion of the decision-making authority and the controlling function throughout the organisation. This distribution of authority within an organisation varies considerably over different phases of the evolutionary cycle of the organisation. Depending on the degree of concentration or dispersion of authority in organisations, they can be termed as centralised or decentralised.

Centralisation: Definition

Centralisation is the process by which the decision-making authority within an organisation becomes concentrated in a particular location and/or group, usually at the top management level. In other words, centralisation is the systematic and consistent reservation of authority at central points within the organisation, usually at the top management level. The more highly centralised the organisation, the more control and decision-making reside at the top (Lorsch & Allen[2], 1973).

In a centralised organisation, decisions are generally made by the top management on the basis of pre-set policies. These decisions or policies are then enforced through different levels of management.

Objectives of Centralisation

(a) The majority of organisations start with centralisation of authority. It is essential for small organisations to survive in a competitive scenario with very little resources because centralisation helps the owners/managers be in touch with all the operations. It also facilitates quick decision–making.

(b) To enable the creation of one locus of control in an organisation to pull different groups together to bring order and enforce uniform processes.

(c) To achieve efficiency through elimination of duplicate systems, extra work and manual processes across the organisation and to take advantage of potential economies of scale.

(d) To improve the reliability by reducing the chances of error.

Advantages of Centralisation

There are several reasons why organisations prefer to centralise their functions to a greater level. Some of these reasons are discussed below:

- ***Greater Efficiency:*** By moving the related functions under one specific individual or position, the organisation reduces overheads and also avoids the duplication of efforts across units or divisions. This ensures that the concerned functions are performed much more efficiently. Centralisation provides an opportunity for savings in short- to mid-term due to sharing of resources and minimisation of duplication of different managerial functions.
- ***Greater Uniformity:*** By undertaking certain functions at the headquarters level, such as human resource management, technology management, and database management, organisations can create a greater uniformity in policies, processes, practices, tools, decisions and outcomes. Due to promotion of uniformity in centralisation, minimal extensive controlling procedures and practices are required.

- ***Easier Training:*** With the implementation of the same practices and management tools throughout the organisation, it is relatively easier to put together training programmes that can be better leveraged throughout the organisation. Otherwise, each department or division has to train its own staff in different managerial practices and tools.
- ***Greater Control:*** It is felt that it is easier to ensure standardisation and quality through centralisation of as many processes as possible under a single head.
- ***Personal Leadership:*** In the early stage of its evolution, an organisation can benefit from centralisation if it is led by a talented and dynamic leader. It can derive advantage in the form of quick decision-making, enterprising and imaginative action, and management flexibility.
- ***Opportunity for Integration:*** Under singular control, the organisation moves like a single unit. The singular control keeps all parts of the organisation moving together towards a common goal in an integrated manner.
- ***Handling of Emergencies:*** Centralisation is suitable at the time of an emergency. It helps in quickly mobilising resources and information and putting it into effect. Emergency situations, like dealing with the introduction of a highly competitive product by the competitor or a sudden government policy change require urgent and quick measures to reduce cost, launch a new product, utilise resources effectively and instantaneously, etc. Emergency situations can be handled in a more effective manner through the centralisation of authority.
- ***Power and Prestige to Senior Management:*** Centralisation provides power and prestige to senior managers as they control decision-making and have a final say on all the issues.

Why Centralisation Fails to Deliver after Sometime?

The majority of organisations in their initial phase have a high degree of centralisation. But, as they grow fairly large in terms of size and number of employees, centralisation starts affecting the optimality of their operations. In this scenario, to maintain the efficiency of its operations, the top management needs to loosen its control a bit and disperse authority to different levels in the organisation. In the decentralised scenario, the role of the top management is to define the corporate purpose and junior managers act as frontline entrepreneurs. Junior managers spot the business opportunities and are empowered to act upon them in accordance with the organisation's mission, goals, objectives, strategy, policy framework and broadly defined controls. Some reasons in support of the move from centralisation to decentralisation are discussed below.

(a) Absolute centralisation becomes untenable when the organisation becomes more complex in terms of size, interdependence of workflow, complexity of tasks and spatial barriers within and among groups.

(b) Centralisation can prove to be unproductive in the long run because the subordinates have no power and authority to timely respond to different situations by making quick decisions.

(c) In fairly large organisations, the need for decentralisation is strongly felt when faster decision-making becomes extremely critical to satisfy and delight the customers. The customers of a large organisation can be served in an effective and efficient manner if the decision-making moves closer to the operating level.

(d) In a centralised organisation, skills of the mid-level management are underutilised as they have little to contribute, and their knowledge is used partially.

(e) The speed of decision-making in a centralised organisation becomes relatively slow when the organisation grows in size and its operations become multi-locational. As a result, the response to customer issues and concerns could be slow.

(f) Generally, there are less motivated personnel in a centralised organisation, because they are not able to make things happen in accordance to their viewpoint.

(g) Centralisation discourages the spirit of initiative among the employees at the lower and middle levels of the organisation.

Decentralisation

Today organisations are constantly reorganising and restructuring themselves to withstand immense competitive pressures arising from global expansion, the onslaught of new technologies and other factors beyond their control. Recent advances in technology and the worldwide spread of the Internet access are eliminating geographical and time-zone barriers which have historically limited an organisation's ability to conduct business anytime and anywhere. In the present context, when organisations and their employees are getting geographically dispersed, there is an increasing trend towards decentralisation. As a result, organisations are more willing than in the past for accommodating local requirements for achievement of corporate goals.

Decentralisation is the managerial approach of dispersion of authority throughout the organisation to enable the managers at all levels play assigned roles optimally. One objective of decentralisation is to empower the lower levels of management where the work is actually performed so that they can take quick decisions to serve the customers effectively. It refers to the tendency to disperse decision-making authority, governance and control at all levels of management in an organisation structure.

In the present-day hyper competitive business environment, decentralisation is often a deliberate response to the needs of the faster pace of business and increased expectations of customers and employees. It represents an attempt to improve speed and flexibility by reorganising the authority system aimed at increasing local control and faster execution of a service.

UB Group's Chairman Vijay Mallya operates from Dubai, South Africa and the US for about three-fourths of the year. However, he keeps a close watch on the UB Group's Indian business operations by adopting management by remote control. Mallya practises considerable levels of decentralisation through a five-member team of senior professional executives. But, he offers significant insight and direction to the business. For instance, Mallya went to South Africa even before the ban on doing business with that country was lifted because he saw a Singapore Airlines plane landing there. Mallya thought if the conservative Singaporeans saw a business opportunity in South Africa, the UB Group should be in that country as well[3].

Characteristics of Decentralisation

The characteristics of an organisation practising decentralisation are as follows.

(a) In a relatively more decentralised organisation, the top executives delegate some of their decision-making authority to the lower tiers of the organisational structure.

(b) A decentralised organisation relies more on lateral relationships and less on command or force.

(c) There is an increased bottom-to-top flow of ideas and communication for participatory decision-making.

(d) Decentralisation breaks the prevailing hegemony and frustrating bureaucratic ways of doing things by involving a cross-section of employees in deciding the relevant course of action for the organisation.

(e) It enables creation of profit centres or divisions by dividing the organisation on the basis of product categories. Each division is assigned the required management and physical tools and facilities to operate as an integrated and self-contained unit. Each division operates independently on a competitive basis. It orders on its own, schedules its operations, negotiates the sale of its finishing products, decides the volume of production, and the production method, etc. It is accountable for the profit or loss arising from its operations.

Requirements for Decentralisation

The following are the prerequisites for decentralisation to be effective.

(a) Developing a policy for providing guidance on decision-making. The policy may include setting broad controls and guidelines to help managers make effective decisions.

(b) Careful identification of the decisions for which decision-making authority can be granted to the lower levels of management.

(c) An appropriate budgeting and control system that can provide the requisite freedom within the boundaries of broad controls.

(d) Acceptance of the principle of delegation and effective practice of the art of delegating by senior executives.

(e) Selection of competent and motivated personnel who can work with less supervision and control with a high degree of initiative.

(f) Effective decentralisation requires a large number of competent managers who are capable of utilising their mental faculties independently in the interest of the organisation. This can be ensured through provision of appropriate training to people who are likely to be involved in decision-making.

(g) Developing a proactive behaviour among existing employees through motivation and encouragement.

(h) Managers should not be afraid of taking decisions individually. They should feel confident that even if they commit mistakes initially (in spite of their best efforts) the organisation would still support them so that they can learn from their mistakes.

(i) Decentralisation can create rivalry and conflict among operating divisions. To prevent the disintegrating tendencies, which result from the narrow vision of some division managers, it is necessary to facilitate communication and coordination among operating divisions at regular intervals.

Advantages and Disadvantages of Decentralisation

Given below are the advantages and disadvantages of decentralisation.

Advantages

- Decentralisation gives managers more freedom and independence in decision-making within the broad controls, which can result in the increased motivation of employees at all levels of management in an organisation.
- It relieves top management from day-to-day administration issues, providing more time for focusing on strategic issues and for searching new avenues and opportunities for the organisation. This facilitates the organisation to grow through strategies, like product diversification, etc.
- It brings decision-making closer to the place of action and shortens the decision-making cycle for a faster response to the customers' concerns.
- It creates a situation where a wider span of control is possible, which reduces the number of tiers within the organisation, giving its structure a flat appearance.
- There is a bottom-to-top flow of information, allowing better and informed decision-making. For example, an experienced technician at the lowest tier of the organisation may know how to increase the efficiency of the production, and the bottom-to-top flow of information can allow this knowledge to pass on to the executive officers for decision-making.
- Giving authority and responsibility at the lower levels of management ensures the professional growth and development of managerial talent. It develops leadership abilities at the lower levels of an organisation and also results in emergence of capable general managers.
- Decentralisation encourages demonstration of innovative behaviour by the employees of an organisation.
- It encourages decision-making and assumption of authority and responsibility by the managers at all levels in the organisation. Thus, employees can take ownership of the organisation's business processes, decisions and results. This reduces employee resistance and increases the probability of faster and smoother implementation of plans.
- It increases the probability of retention of employees because they feel empowered and an important part of the organisation.
- It aids in faster adaptation to the fast-changing business environment.
- It facilitates setting up of profit centres. For example, the general managers at the plants of Nucor Corp. (a leading steel company of the US) are given considerable freedom to take decisions. The headquarters doesn't restrict what they spend. All they are required is to make a contribution to the company's profits at the end of the year by generating a minimum of 25 per cent return on the assets under their control[4].
- It makes possible the comparison of performance of different organisational units to determine who is following better managerial practices and approaches to get similar things done in a better manner. Subsequently, these learnings can be transferred to other units, departments or divisions.

Disadvantages

Decentralisation has its own share of disadvantages. Some of these are listed below.

- As decentralisation requires more competent managers and staff members at all levels of management, it can lead to increased costs. It may not be favoured by economies of scale of some operations as it may lead to overlapping and duplication of efforts.

- It involves considerable expenses for training of managers at the lower level of hierarchy.
- It increases the probability of loss of consistency with respect to quality, processes, policies and handling of issues. It may lead to even lowering of standards in decision-making in some cases.
- There might be lack of internal cooperation, and the coordination of activities of decentralised organisational units might become increasingly complex.
- The gains of decentralisation may be limited if it is not backed by adequate control techniques. The overall performance may get affected if there is inadequate planning, and control systems are not that effective.
- The top-level management might feel a decrease in their status or loss of some control.
- It requires motivated managers at the lower levels of management.

Right Balance between Centralisation and Decentralisation

Generally, there is a belief that decentralisation is good and centralisation is bad. But, neither of them is always better nor always possible in the purest sense. If one set of factors encourages centralisation of authority, then another set of factors calls for its decentralisation. How to arrive at an optimum balance between the two is one of the major issues of organisational decision-making.

Although it has been observed that decentralisation is finding an increasing acceptance in the large and global organisations, yet there are limits to decentralisation as a strategy. Any relaxation of direct control or authority introduces the possibility of lack of uniformity, dissent or division at critical moments. Friedrich Engels[5] refuted the argument of total decentralisation proposed by Bakunin, by ridiculing, ‘How these people propose to run a factory, operate a railway or steer a ship without having in the last resort, one deciding will, without single management, they of course do not tell us’. Thus, some form of centralisation is desirable, but excessive centralisation may be harmful to the organisation despite its various advantages.

As it is evident, there are compelling pros and cons on both sides. But, the reality is that most global organisations are embracing both centralised and decentralised philosophies. They are incorporating the elements of centralisation as well as decentralisation in their organisational approach. For example, if the sales and marketing department needs to be decentralised then the working of the HR department can be leveraged across the entire organisation regardless of business units or geography.

Even the strong advocates of decentralisation do support a (very limited) amount of centralisation. As employees gain autonomy due to decentralisation, companies must also launch centralised solutions that ensure corporate compliance and consistency because managers within distributed organisation units often make decisions that could impact the entire organisation. Therefore, there must be reinforcement and regular updating of the employees on corporate vision and philosophies so that employee decision-making supports these ideals and objectives.

For decentralisation to succeed, HR professionals in decentralised organisations must ensure that the employees have access to consistent training and development, adhere to appropriate regulations and receive the necessary feedback and guidance to perform their operations effectively with reasonable uniformity. By providing the employees with the requisite skills, experience, training and recognition, organisations can develop a more confident workforce which can perform effectively in the decentralised framework.

Why Optimal is not Always Optimal?

By and large, it is now accepted that big organisations should practise decentralisation with a blend of centralisation in some functions. But, organisations usually have more than the required levels of centralisation. Some factors that lead to more centralisation than required are discussed below:

1. The heads of marketing, HR, finance, technology and legal functions, at the headquarters usually prefer to have maximum control. They may resist sharing their power with the heads of the operational divisions and the functional heads within these divisions.
2. It is psychologically difficult for the superiors to give away the power, that once vested in them to their subordinates.
3. Generally, a good number of individuals have an exalted opinion about themselves but they discount the capabilities of others who are associated with them as team members or subordinates.
4. More number of general managers and well-rounded professionals are required to operate in a decentralised environment than in a centralised model where the depth of a single functional expertise is favoured. As the presence of these professionals in large numbers can increase the overall cost, companies show an inclination towards centralisation.
5. It is easier to measure the functional improvements created through centralisation, but it is difficult to measure the inefficiencies created by the additional complexity of integrating various functions within a centralised organisational model. Thus, the management is generally aware of the benefits of centralisation but does not have a very clear understanding with respect to the corresponding costs associated with it.

How much Centralisation is right for an Organisation?

There is no set universal answer to this question. The required degree of centralisation depends on the evolutionary stage of an organisation, its history, the nature of tasks to be performed, human and technological capabilities that it possesses and the mindset of the top management of the organisation. Centralisation may not work very well in some organisations but in other organisations the reverse may be true, and decentralisation may not produce good results.

Therefore, centralisation/decentralisation decisions should be made with a proper understanding of all the factors involved, not just the factors that can be measured with a short-term financial focus in mind. Such decisions should only be made by the management on the basis of appropriate input given by different stakeholders of the organisation.

DELEGATION

Delegation involves assigning of responsibility with corresponding formal authority by a superior to his/her subordinates to get a particular task accomplished through them. The delegation process consists of the following steps.

1. ***Identifying the task to be delegated:*** The nature of delegation is specific to a particular task. The superior delegates the responsibility and authority to the subordinates for that task only. After the particular task has been accomplished, status quo prior to the delegation is restored.

To ensure that the subordinates properly understand what needs to be done, it is important for the superior to clearly define in advance what he wants to get done. There should not be any communication gap between them.

2. ***Determining the results expected as an outcome of delegation:*** The manager needs to be clear about what he finally expects as the outcome of the delegation process. Once this acceptance criterion is known to the manager then only the same can be communicated to the person to whom the task has to be delegated. This helps in removing the anxiety and confusion for both the parties. The acceptance criterion determines whether the task has been successfully accomplished or not. The acceptance criterion helps the person to whom the task has been delegated understand in clear terms what would decide the successful completion of the task.
3. ***Selecting right individual(s) to whom the task is to be delegated:*** The manager has to ensure that the person to whom the task has been delegated is competent enough to perform the task. The effective and efficient accomplishment of the task cannot be expected from a person who is not suitable to undertake it. Selection of the right candidate for delegation can help in saving a lot of time and energy of the delegating manager.
4. ***Assigning specific duties/tasks to an individual or a team:*** Delegation cannot be general in nature. How specifically the task to be delegated has been defined significantly determines its understanding and the probability of the accomplishment of accompanying objectives. Vague description of the task is neither in the interest of the delegating manager nor in the interest of the person to whom the task would be delegated.

   After assigning specific tasks or duties to a subordinate, the manager needs to verify through feedback whether the subordinate has clearly understood the task and the final outcome that is expected from him/her.
5. ***Granting appropriate authority to the individual or the team for accomplishing the assigned tasks/duties:*** The individual to whom the task has been delegated must be adequately empowered (neither more nor less) to enable him/her to complete a delegated task. Because in the absence of adequate authority he might not be in a position discharge his/her responsibility for the accomplishment of the task. It must be taken into account that the superiors cannot delegate the authority which they themselves do not possess.
6. ***Creating an obligation or responsibility to perform the assigned duties/tasks:*** Responsibility refers to the obligation of the subordinate to accomplish the assigned duties to the best of his/her ability. The individual must believe that it is his/her obligation to perform the assigned task. He/she should strongly feel a sense of responsibility to deliver the results that are expected from him/her. Without this commitment, he/she might feel the delegation as an additional burden, which might lead to half-hearted efforts. Such an approach cannot be expected to deliver optimum results.

   It must be taken into account that the authority can be delegated but the final responsibility rests with the person who has delegated the task because **the superior's responsibility cannot be delegated**. Therefore, a boss must hold the subordinates responsible for completing the tasks assigned to them.
7. ***Monitoring the performance of the task and provision of feedback:*** The delegating officer should regularly monitor the performance of the assigned tasks/duties, but this should be done in

a manner that is not perceived by the subordinate as an unwarranted interference. If the monitoring is accompanied by giving right feedback to the subordinate, it can act as a catalyst for the accomplishment of tasks and would ensure that the subordinate's efforts are in the right direction. Monitoring ensures that the delegating officer need not make last-minute responses to correct something that is going wrong.

8. ***Evaluation of the final outcome of the delegation:*** The final outcome must be evaluated and compared with the initial expectations. This helps in correcting significant deviations, if any and getting a feedback about the performance of the given task. It informs the individual to whom the task had been delegated that the delegated task was of considerable importance to the assigning manager. It also reinforces the impression among the subordinates that the manager takes the process of delegation seriously.

Importance of Delegation

Delegation is one of the most important management skills because it creates conditions for a manager to be optimally efficient and effective by providing him/her an opportunity to focus on more critical tasks. The rate and extent of responsibility and authority delegated by a manager to his subordinates for performing tasks is one of the fundamental drivers of the organisational growth and effectiveness, the growth and well-being of the subordinates, and the advancement of the manager.

An effective delegation of responsibility and authority helps a manager in the following ways.

- It saves time that can be utilised for more productive purposes. The manager can move ahead and focus on more important things.
- Delegation is not just a management tool for freeing up the superior's time, it can also be used to develop the subordinates and groom successors. Delegation is a very helpful aid for succession planning, personal development and promotion. It enables the subordinates to gain experience to take on higher responsibilities which is useful both for the subordinates as well as the manager who is grooming his/her successor.
- The manager can motivate his/her team by giving them challenging tasks and opportunities for learning through delegation.

Levels of Delegation

Delegation is not just a matter of telling someone else what to do. It can be classified into different categories or levels on the basis of the varying degrees of authority that a manager can confer on the subordinates to enable them deliver the required performance of a task.

The manager needs to be creative in choosing an appropriate level of authority and responsibility that needs to be delegated. The decision on the extent of delegation varies with the nature of the delegated task, the competency of people and the criticality of situation. The manager should ideally take feedback from the subordinate whether he/she is comfortable with the given level of delegation or not.

Alan Chapman[6] developed different levels of delegation on the basis of how delegation is employed by managers. These levels are described below.

1. *'Do exactly what I say' or 'Follow these instructions precisely and wait till you are told something':* In this form of delegation, there is no provision of freedom at all. Only the task is delegated to the subordinate who is required to do as he/she is told and not to use any discretion or judgment. This form of delegation can only be effective if the subordinate is new to the job or has proven that he/she is not that effective by his past actions. It can also be employed in situations which are extremely critical with highly negative consequences if anything goes wrong.
2. *'Look into this situation and describe it to me. I'll decide':* In this form of delegation, the manager is giving some freedom of analysis to the subordinate. The subordinate can present different alternatives on the basis of his/her analysis, but the manager retains the responsibility of assessing the analysis presented by the subordinate prior to making any decision himself. The delegating manager asks for investigation and analysis, but no specific recommendations are sought from the subordinate. This form of delegation could be employed with the trainees who have just joined the organisation and have good academic background but little professional experience.
3. *'Look into this situation and describe it to me. We'll decide together':* This level of delegation encourages and enables the subordinate to analyse the situation as an important constituent of the overall decision-making process. As the decision-making is shared by the delegating superior with his/her subordinate, this level of delegation can be very helpful in coaching and development. This can greatly motivate a young manager as he/she is made to believe that his/her superior considers him/her to be a competent professional.
4. *'Tell me the situation and what help you need from me in assessing and handling it. Then we'll decide':* This level of delegation creates the possibility of greater empowerment of the subordinate. The subordinate feels encouraged as his/her superior would not only be providing him/her the needed resources but would also be willing to take into consideration his/her views while making a decision. This form of delegation is helpful in coaching and development of relationships.
5. *'Give me your analysis of the situation (reasons, options, pros and cons) and recommendations. I'll let you know whether you can go ahead':* In this scenario the manager asks the subordinate to provide him/her the analysis of the situation as well as recommendations. However, the superior retains the right to check the information before making a decision. The subordinates can feel empowered and motivated because they are in a position to provide different options that they consider can be a good solution for the given situation. This form of delegation can be applied with the subordinates who have acquired some experience and competency in the area in which the task has been delegated.
6. *'Decide and let me know your decision, and wait for my go-ahead before proceeding':* The delegating manager empowers the subordinates to not only assess the situation and develop different options but also make a decision on the option to be chosen. In this manner, the manager conveys to the subordinate that he/she is probably competent enough to decide and implement an option. It is only because of the importance of the task, or some externally changing factors with which the subordinate may not be well-versed that the manager prefers to keep control on the time of implementation. This form of delegation can be applied with the subordinates who have acquired significant experience and competency in the area in which the task has been delegated.

This level of delegation can be frustrating for the subordinates if used too often or the decision for implementation is kept pending for too long. If the subordinates who have invested considerable time and effort in making a decision about the given task, are kept waiting for the implementation of their decision, for a long time, they must be provided the reason for the delay.

7. ***'Decide and let me know your decision, then go ahead unless I say not to':*** At this level of delegation, the subordinate to whom the task has been delegated begins to control the action. This increase in the responsibility of the subordinate helps in saving time. He/she is in a position to use the given responsibility effectively for a good outcome. This can bring in a positive change, especially in that organisation which is strangled by indecision and bureaucracy.

   This form of delegation can be applied when the delegating authority has full faith in the competency of the subordinates to whom the task has been delegated, and the situation warrants that the task should be completed without wasting any time in decision-making. In these situations, the requirement for coordination with external agencies is also very limited as the task can be executed without the involvement of external parties, departments or the top management.

8. ***'Decide and take action, let me know what you did and what happened':*** When a manager has sufficient confidence on the ability of the subordinate and wants to save time, he/she employs this form of delegation. It enables the manager to conduct a follow-up to assess the effectiveness of the delegated responsibility.

   The feedback provided by the manager helps in the coaching and development of the subordinates who were given the delegated responsibility. This form of delegation is employed when the subordinates are being managed from a greater distance, or through a 'hands-off' approach.

9. ***'Decide and take action. You need not check with me':*** This is the highest degree of freedom that a manager can give to the subordinate while delegating a task and retaining the responsibility for the activity. It requires a high level of confidence because the manager would see/analyse/evaluate the quality of the performance/outcome after a significant time. The superior plays the role of a mentor for the subordinate.

10. ***'Decide what needs to be done and manage the situation accordingly. It's your area of responsibility now':*** This form of delegation, involving the highest degree of freedom, is of a strategic nature. In this delegation, the subordinate is given the responsibility with respect to defining the changes that need to be made, the tasks that need to be performed, how the analysis would be done, which decisions need to be made for the execution of the given task, and how the initiative or change is to be implemented and measured. Therefore, it usually involves a formal change in the original role and responsibility of the subordinate.

    This from of delegation tantamounts to much more than merely delegating a task or a project. Actually, it concerns with delegating a part of the manager's job. This highest level of delegation is used while developing a successor or as a part of an intentional and agreed upon plan to formally hand over some of manager's job accountability to the subordinate.

Factors Affecting the Choice of Delegation Level

The choice of a suitable delegation level by a manager depends on many factors relating to situations, people, tasks, etc. Some of these factors are discussed below.

(a) ***Personality and Experience of the Delegating Manager:*** Whether a person would delegate or not and to what extent he/she would be comfortable to delegate depends significantly on these factors— his/her personality, belief in the capability of the subordinates, risk-taking ability, etc. Past experiences of a superior also affect the way in which he/she delegates authority to his/her subordinates. For instance, a superior who was delegated adequate authority in his/her career is more likely to delegate authority to his/her subordinates.

(b) ***Experience of the Subordinate:*** The more experienced and competent the subordinate is the more freedom can be given to him/her while assigning a task or responsibility.

(c) ***Criticality of the Task:*** More critical is the task, more cautious a manager needs to be about extending freedom, especially if his/her job or reputation depends on the outcome of the task.

(d) ***Situation:*** The manager must choose the most appropriate style and level of delegation for each situation depending upon the nature of the task, subordinates; competence, the manager-subordination relationship, etc.

Consequences of Poor Delegation

Poor delegation can prove to be a great failure as well as an embarrassment depending on the nature and importance of the task that has been delegated. It can lead to some of the following consequences.

- Results in failure in achieving the task or purpose (completely or partially).
- Creates frustration.
- Leads to a loss of reputation and credibility of both the manager who delegated the task and the subordinate to whom the task was delegated.
- De-motivates the individuals involved in delegation.
- Confuses the manager by creating certain perceptions about the competencies of the subordinate to whom task has been delegated.
- Spoils the superior-subordinate relationship.
- Affects the future decisions of the manager with respect to delegating a task in general and to that individual in particular, who fared badly in discharging the delegated responsibility.
- Starts a reach for people from outside the organisation for succession and progression if the delegation proves to be ineffective consistently.

Reasons for Failure of Delegation

Delegation can fail to achieve the desired results because of multifarious reasons. Some of them are described below.

Factors related to the Delegating Manager The delegation failure mostly occurs because of the managers' inability to apply the principles of delegation. Although managers are aware of the principles of effective delegation, yet they fail to apply them because of the following reasons.

- ***Love for authority:*** Mostly, the superiors are not very keen to share their authority with the subordinates. They like to underline their importance by making the subordinates to approach them for every small decision. Some of them like to convey an impression of being very busy or very careful in their decision-making and hence let the work pile on their desk. They make the subordinates to unnecessarily wait for a decision.

- ***Unwillingness to let go:*** A major fault of some managers is that they want to continue to make decisions for the positions they have been promoted from. They do not realise that doing so takes away their time and attention from far more important decisions.
- ***Lack of confidence in subordinates:*** The superiors' lack of confidence in their subordinates and an unhealthy attitude towards them are major obstacles to delegation. Some managers do not like to accept the mistakes or failures their subordinates may commit while doing the delegated tasks. But, the subordinates must be allowed to make some mistakes, and the cost of mistakes must be considered an investment in personal development. The close monitoring of the subordinates to ensure that do not make mistakes in the delegated tasks de-motivates them.
- ***Fear of subordinates' advancement:*** Some managers are wary of the advancement of their subordinates because of the following two reasons:
  (a) The competence and good performance of the subordinate might earn him/her a promotion as a result of which the manager would lose a good subordinate.
  (b) The subordinate may excel in his/her job to such an extent that he/she may become a contender for the superior's position.

  Sometimes, due to the above stated reasons, the managers do want their subordinates to do exceedingly well and get too much recognition for their work.

Factors related to the subordinates The subordinates are also often reluctant to accept the delegated powers because of the following reasons.

- ***Fear of criticism:*** The subordinates sometimes suspect that the credit for success will be taken by the superior, whereas the criticism for failure would be directed towards them. Fear of criticism or loss of job for mistakes could deter the subordinates from accepting higher responsibilities. They might even feel that taking the responsibility of a delegated task is actually asking for trouble.
- ***Lack of information and resources:*** Sometimes, the reluctance of the subordinates stems from the lack of adequate information and resources to execute the task.
- ***Lack of self-confidence:*** Lack of familiarity with the delegated task and lack of confidence to execute it also deter the subordinates to take on additional responsibilities.
- ***Absence of rewards and incentives:*** The subordinates do not want to accept additional or higher responsibilities without the promise of rewards and incentives for satisfactory performance.

Organisational Aspects Organisational aspects, like organisation's size, its policy towards centralisation or decentralisation, availability of managerial personnel, types of control mechanism and management philosophy, affect the outcome of delegation. For instance, organisational factors may obligate even an autocratic superior to delegate authority. Similarly, it is difficult to initiate the delegation process in an organisation where there is history of little delegation.

Steps to Improve Delegation

The outcome of a delegated task is not just dependent on the subordinate entrusted with task but it is also significantly influenced by the manner in which the task is delegated to him/her. People are generally capable of doing far more than one can imagine. Given below are the simple yet effective steps to get the delegation right. These delegation techniques are useful for managers delegating the tasks as well as for employees seeking or being given delegated responsibilities.

- ***Define the Task Clearly:*** The delegating manager must communicate in clear terms the acceptance criteria or conditions of the successful completion of the task to the subordinate to whom the task is being delegated. The desired outcomes, timeframe, budget constraints and any other relevant factors must be spelled out in detail in advance. Non-provision of information about these critical elements can create confusion and the conditions for failure. The manager should provide necessary information on the following aspects of delegation.
    (a) What task he/she wants to delegate? Whether the task needs to be delegated to an individual or a team?
    (b) Whether the task meets the criteria for delegating and is suitable to be delegated?
    (c) Why the job or task is being delegated? Why the task is being delegated to the concerned subordinate person or team? What is the importance and relevance of the task that is being delegated? Where does the delegated task fit in the overall scheme of things to ensure that the subordinates can make a special effort to deliver superior performance?
    (d) What the people to whom the task is delegated are going to get out of it? What results are expected when the delegated task is performed successfully?
    (e) For the accomplishment of the delegated task, a specific plan should be worked out. This plan should clearly specify the resources that are needed, the approach or methodology that has to be followed, a timeline for the completion of the task, how the outcome would be measured, and milestones or targets to assess the progress of the task with respect to time, budget and quality.
    (f) Getting it confirmed from the subordinates that they have actually understood what needs to be done.
- ***Checking and Controlling Measures:*** The manager needs to ensure that it is clear to the subordinates how the task will be measured during its progress and on the completion of the task, how it will be decided that it has been accomplished successfully.

    Methods of checking and controlling must be agreed upon with the subordinates at the outset. Failing to agree on this can create a situation where monitoring may seem interference or lack of trust to the subordinate to whom the task has been delegated.

    It is essential that the manager conveys his/her feedback on the programme of the delegated task periodically to the concerned persons; how he/she perceives the task is being done, whether they are achieving their aims or not and to what extent they have been successful in that. If the progress is not satisfactory, the manager must discuss with the concerned persons: why things did not happen as per plan, what more needs to be done, and how to deal with those problems.

The manager can schedule interim meetings periodically depending upon the length, nature and criticality of the task. Some projects/tasks might require more frequent reviews than others. The manager can establish a conference call or have status reports e-mailed to him/her for the teams that are separated from him geographically. This mechanism for joint evaluation of the progress and make mid-course corrections need to be provided as it can help keep the project and staff on track. The manager needs to set up a structure to ensure accountability as his/her personal reputation is at stake because the final responsibility rests with him/her.

While performing the controlling function manager should ideally absorb the consequences of failure, and pass on the credit for success to the people who have been instrumental in performing it.

- ***Superior-Subordinate Agreement:*** Delegation is a kind of 'psychological or emotional contract'. There must be an agreement between the superior and the subordinate on what needs to be done and the corresponding expectations that are linked to the delegation of responsibility.

  The individuals to whom the task is delegated might have some views about expectations attached, time-scale, resources, budget, purpose and method. The manager must give them an opportunity to discuss their issues concerning the delegated task. The people, location, premises, equipment, money, materials, other related activities and services that are required to perform the delegated task need to be taken into consideration in advance and agreed upon between the manager and the subordinate to whom the task is delegated. This is an essential of consideration to the contracting process and also prevents the occurrence of problems of delay, failure and poor quality at a later stage.

  While delegating, it's vital to ask the subordinates what level of authority they feel comfortable being given. Some people are more confident with authority, others are less so. It is the manager's responsibility to arrive at an agreement with them on the required level of authority so that the job is done effectively and with minimal unnecessary involvement from the manager. Making the subordinate to agree with the proposed level of delegated freedom for a given task is an essential part of the 'contract' that a manager makes with him/her.

  Although timeframes are often determined by external circumstances, still a manager must ensure that the person to whom the task is delegated agrees that the timeframe is possible. If a task has to be completed by Wednesday, the manager can begin by asking, 'Can you have this done by Wednesday?' This step is often overlooked. Whenever it is possible, the manager must involve the other person in setting the timeframe and creating a plan for approval by the manager.

  General Patton once said, 'Never tell people how to do things. Tell them what to do and they will surprise you with their ingenuity.' The manager needs to get buy-in from the subordinates to whom the task is to be delegated.

  If the subordinate to whom the task is delegated is from a department other than that of the manager, the manager should also ensure support for him/her from his/her department and the reporting officer so that he/she is in a position to perform the delegated task.

  The manager should also inform his/her own boss about the delegation of the task in advance if the task is important. This would build agreement at the top about the process of delegation.

- ***Assessment of Capability:*** The manager needs to assess the performance capability of the concerned subordinates or the team with respect to the task to be delegated. The job should be given to someone who can do it. The person may not have all the skills for execution, but he or she should be the one who is able to martial the right resources for the successful completion of the task.

  If the subordinate is not competent for performing the desired task, the manager cannot delegate it to him/her without necessary hand holding. The training needs of the subordinate to whom the task is going to be delegated can be identified to enable him/her to perform the task in the best possible manner.
- ***Time-bound:*** The manager and the concerned subordinate need to be clear and agree on various deadlines and the overall time-frame for accomplishing the task. They should know the following essential details:
  (a) When must the task be finished?
  (b) What are the review dates for an ongoing progress?
  (c) What are the timelines for different parts, stages or phases if the delegated task is complex?
  (d) What are the priorities and how they need to be synchronised?
  (e) Timely reviews can show whether the job can be accomplished the way it is proceeding. If not, what changes are required? Reviews helps reinforce commitment.
- ***Ethical Behaviour:*** It is highly imperative for both the parties involved in delegation to be ethical and not to use it for covert motives. Only the tasks are valid, legal and perfectly right to be performed should be delegated.
- ***Record-keeping:*** Record-keeping and documentation is extremely important in delegation. It clarifies to all the concerned parties how the delegated task is progressing. The manager should explain the needs with respect to communication and reporting at the outset. All concerned with delegation should be fully familiar the following aspects of record-keeping:
  (a) On what pattern the reports need to be developed?
  (b) When the reports, if they are required, would become due?
  (c) Who all are likely to see the report?

Points to Remember

1. Power is the ability or the potential ability of an individual or a group to exert influence on the beliefs or actions of other persons or groups beyond their authority which is derived from their position.
2. Power comes from following sources: Formal Power or Position Power (Legitimate Power, Coercive Power, Reward Power, Resource Power and Information Power), Personal Power (Expert Power, Interpersonal Skills, Empathetic Ability, Persuasive Ability, Ability to get Results, Relationship Power, Referent Power, Charismatic Power).
3. Personal power is a set of skills and abilities possessed by an individual. It does not come with an 'office' but moves with an individual.
4. A manager develops referent power when his/her team members respect and admire him/her personally.
5. A manager can build and use expert power when others recognise that he/she is competent and a credible source of information and advice.

6. Authority is the legitimate right of a person to exercise influence, make decisions, carry out actions and to direct others.
7. Authority can be classified into different types: Line Authority, Staff Authority and Team Authority.
8. Managers can empower themselves by building and using referent power, expert power, legitimate power, reward power, and coercive power.
9. Authority needs to be exercised by making a legitimate request in a rational and polite manner.
10. There are problems with relying too heavily on rewards as a source of influence. The manager needs to reinforce the desired behaviour more subtly.
11. Effective managers avoid using coercive power except when absolutely necessary because it creates resentment, erodes their personal power base, and there is no chance of gaining commitment or even willing compliance.
12. Employees or subordinates can be empowered by providing necessary resources and authority, believing in the team, demonstrating and communicating trust in their competencies, and involvement through participation.
13. Centralisation is the process by which the decision-making authority within an organisation becomes concentrated in a particular location and/or group, usually at the top management level.
14. Due to immense competitive pressures, organisations are constantly reorganising and restructuring in favour of decentralisation.
15. Decentralisation is dispersion of authority throughout the organisation to enable the managers at all levels to play their assigned roles optimally.
16. Delegation involves assigning of responsibility with corresponding formal authority by the superior to the subordinates to get a particular task accomplished through them.
17. The delegation process consists of the following steps: identifying the task to be delegated, determining the results expected as an outcome of delegation, selecting right individuals to whom the task is to be delegated, assigning specific duties/tasks to an individual or a team, granting appropriate authority to the individual or the team for accomplishing the assigned tasks/duties, creating an obligation or responsibility to perform the assigned duties/tasks, monitoring the performance of the task and provision of feedback, and evaluation of the final outcome of the delegation.
18. There are different levels of delegation employed by the managers. The choice of a delegation level depends on: personality and experience of the delegating manager, experience of the subordinate, criticality of the task, and situation.
19. The steps to get the delegation right are: define the task clearly in measurable time-bound terms, assess the performance capability of the concerned persons with respect to the task to be delegated, building agreement between the superior and the subordinate, and recording the progress of the delegated task.

Review/Discussion Questions

1. Define power. What are the sources of power?
2. Why people prefer to work for managers or superiors who know how to use power?
3. How do you compare personal power with position power?
4. What is authority and what are different types of authority?

5. Why is there a need to empower oneself and others?
6. How can one empower oneself and others?
7. What problems are associated with relying too heavily on rewards as a source of influence or power?
8. What is centralisation and decentralisation?
9. How much centralisation is right for an organisation?
10. What are the objectives behind centralisation and what advantages are associated with it?
11. What are the advantages and disadvantages of decentralisation?
12. Why centralisation fails to deliver after some time, creating conditions for decentralisation?
13. What prerequisites must be in place for decentralisation to be effective?
14. How can an organisation attain the right balance between centralisation and decentralisation?
15. Define delegation. What is the importance of delegation?
16. What are the different levels of delegation?
17. What are the factors that affect delegation at different levels?
18. What are the steps in the delegation process?
19. What are the reasons for failure of delegation and what could be consequences of poor delegation?
20. What steps can be taken to improve delegation?

Field Exercises/Class Exercises/Group Projects

1. Students need to meet the promoters and managers of medium-sized corporations and try to have their perspective on empowerment, centralisation and decentralisation.
2. Students should remember an instance when they had delegated a task to someone. What was the outcome? What were the reasons behind that outcome? How far away was the adopted delegation methodology from the ideal delegation process?

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Chapter 10

Organising

Our organisations tend to be good at what was important yesterday.

—Peter Winsemius, Partner, McKinsey Holland

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand, the process of organising and classification of organisations
- explore different phases of growth or evolution of organisation
- appraise organisation design, structure and departmentation
- understand span of control and line and staff functions
- comprehend employee empowerment: centralisation vs decentralisation
- understand the role of business culture

INTRODUCTION

Human beings have always tried to organise themselves. The family is the smallest unit of human organisation which in its larger forms evident in distinct geographical regions, races, religions, castes, tribes, etc. The human ability to organise is based on the coordination of complementary skills so that as an organisation human beings can make a collective contribution for realising their common goals and objectives.

Literally, the word 'organise' means placement of ideas, objects or people in a correct order so that they are easily available for use when required. In management, the organising function represents all those activities that result in the formal assignment of tasks, authority and responsibility to groups and individuals and establishing coordination among them for achieving the goals and objectives of the organisation in an effective and efficient manner.

Organising involves classification of work, designing of different work units to which different tasks are assigned, and establishment of coordination and relationship among different units and positions.

For example, the TATA group has organised itself into seven divisions: Engineering, Materials, Chemicals, Energy, NTIC, Services and Consumer Goods. Each division is further organised in the form of departments and responsibility centres to execute its operations as a distinct Strategic Business Unit (SBU).

DIFFERENT CONSTITUENTS OF ORGANISING

Organising is an over-arching managerial function that comprises a good number of constituents about which a manager has to make a decision. The essential elements of organising, outlined below, have been described in detail in subsequent chapters.

(a) ***Organisation:*** It comprises a set of activities that establishes an organisational structure with clearly defined roles, responsibility, accountability and authority for different positions to be exercised by the people who man these positions to accomplish organisational goals. It is further classified into the following sub-functions:

- **Organisation Design**: It involves determination of the nature of organisation of different activities and the relationship among different positions to select the most appropriate organisation structure for execution of organisational activities. Some basic organisational designs are: functional, divisional, and/or matrix organisational structure.
- **Organisation Structure**: It is the manifestation or outcome of the organisation design. It clearly delineates how different roles, responsibilities and positions inside an organisation are related with one another. Two broad forms of organisation structure are: mechanistic and organic organisation structures.
- **Departmentation**: It is a process of classification of different tasks and activities through work breakdown analysis and then grouping of similar tasks and activities for the establishment of specialisation for the efficient execution of different activities. The coordination and performance of common tasks is ensured by appointing a managerial functionary with adequate authority and corresponding responsibility. Departmentation forms the basis on which work or individuals are grouped into manageable units.
- **Organisational Relationship**: This constituent of organising defines the nature of authority relationship between different positions in the organisational hierarchy. These positions are broadly classified as line and staff functions. A line function represents those positions that

are having a decision-making authority within their scope of work, whereas the staff function includes those positions that merely have an advisory role in the organisation structure.

(b) ***Span of Control:*** It represents the number of individuals that can be effectively managed by a single manager. Depending on the number of individuals being managed by a manager, the span can be termed as narrow or wide. This number is based on many factors, like the nature of task, the competency of the manager and the subordinates, etc. Each of these factors or spans has its own advantages and disadvantages.

(c) ***Employee Empowerment:*** It specifies the extent to which the authority is dispersed among different levels of an organisation. Organisations have to decide whether they want to adopt a centralised or decentralised authority system. The areas covered in this domain include:

- **Centralisation and Decentralisation**: The nature and extent of dispersion of authority and decision-making power in an organisation.
- **Power and Authority**: It delineates the role and importance of power and authority in undertaking a managerial effort in an organisational and group setting.
- **Delegation**: It is the process of getting a specific thing done through others by assigning them a specific responsibility and adequate amount of authority. It describes the essential requirements that can enable a manager to get his/her task done through others in an effective and efficient manner.

(d) ***Organisation Culture:*** It is a soft but an extremely vital constituent of the organisational system as it has a major impact on the organisational performance, employee motivation, and the acceptance and resistance to a change by employees. Due to its vague and imprecise nature, organisation culture has been defined variously by different scholars. Schein[1] (1990) defined organisational culture as: 'a pattern of basic assumptions invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and integration, that has worked well enough to be considered valid and, therefore, is to be taught to new members as the correct way to perceive, think and feel in relation to those problems.'

Quinn and McGrath[2] (1985) proposed four types of organisational culture: rational, ideological, consensual, and hierarchical, as dominant organisational forms. As the culture and related corporate realities interact to influence performance (Sathe[3], 1985), organisations need to be aware of these shared perceptions, and examine whether these perceptions are consistent with their objectives, strategies and tasks.

IMPORTANCE OF ORGANISING

The basic purpose of the organising function is to ensure the best possible utilisation of an organisation's resources to achieve its goals and objectives. The importance of organising from the following benefits that it leads to.

- Arrangement of positions and jobs in the form of an organisation structure presents a clear hierarchy of roles and responsibilities.
- Organising defines the extent of authority and responsibilities of different levels and positions within the organisation structure.

- It establishes the nature of relationship among different positions in the organisation structure in a manner that will minimise friction, duplication and ambiguity.
- It facilitates the attainment of organisational objectives through optimum utilisation of different resources.
- Classification of work and assigning it to different departments helps in bringing specialisation in managerial functions.
- Organising is used as a strategy and a tool by organisations to improve the effectiveness and efficiency of their operations.

ORGANISING PROCESS

The organising function of management comprises the following steps that need to be executed one after the other in the form of a systematic process.

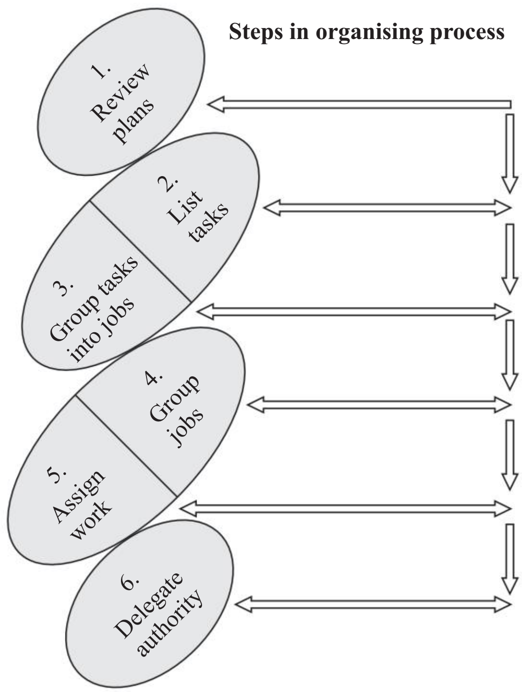

Figure 10.1 Steps in the Organising Process

- ***Step I: Review of Strategic and Operational Plans:*** A manager must be aware of the vision, mission, goals, objectives and strategies that have to be implemented through organising. Different constituents of the organising function should be developed in accordance with different strategic plans and the internal and external environments of the industry. Therefore, it is highly imperative that the top management initiates the organising process after having considerable understanding of the factors that are likely to affect the outcome of the organising process.

- ***Step II: Determination of the activities to be performed to implement the plans:*** A manager needs to outline the activities that need to be performed in order to achieve the goals and the objectives of the organisation.
- ***Step III: Creation of a job:*** Organising different tasks that need to be performed into groups that can be accomplished by a single individual.
- ***Step IV: Departmentation:*** Classifying these activities into administrative units in a logical and efficient manner so that similar activities are grouped together, and a manager can be appointed to be responsible for the execution of these activities.
- ***Step V: Organisation Structure:*** Establishing relationships between jobs or positions in the form of an organisation structure or hierarchy by taking into account the number of individuals that can be managed by a single individual for that position.
- ***Step VI: Determination of Authority:*** Assigning a particular level of managerial authority and responsibility to various managerial positions so that people manning these positions could be enabled to perform as desired to accomplish long-term organisational goals.

ORGANISATION

A major task of the organising function is to determine the nature organisation that would be most appropriate for a business entity. The planning process sets the goals and the organising process puts in place an organisation structure with clearly defined roles, responsibilities and corresponding authority for different positions to enable the people manning them accomplish the goals.

An organisation involves two or more people with ideas and resources, working together in a structured, formal environment to achieve common goals. It is a social and managerial system with a clearly defined boundary. It pursues collective goals through planning, hiring the human resources, directing their effort and controlling their performance.

Organisations are living entities. Their focus is on philosophy, meaning and culture, and their preoccupation is with building vibrancy and a sense of belongingness. A fact that is often overlooked is that building vibrancy also involves running a healthy, self-sustaining and profitable operation[4].

In the present times, there has been a transformation in the approach towards organisation. The traditional autocratic organisation with its hierarchical system of management that used to extract performance out of people is finding it difficult to generate optimum results in the present-day business scenario. Modern-day managers are making an attempt to create an organisation with an atmosphere of empowerment where decisions are made through participation and consultation to inspire people and boost their productivity.

Classification of Organisations

On the basis of different parameters and approaches, organisations can be classified into the following two categories.

(a) ***Formal Organisation:*** The formal organisation represents the official organisational structure that is conceived and established by the top management. It can be represented in the form of an organisational chart, which displays the organisational structure, job titles, lines of authority and relationships between departments and positions.

Formalisation is an important aspect of the organisation structure as it explicitly divides the organisation into different units with clearly stated roles, responsibilities, authority level, policies and procedures.

(b) ***Informal Organisation:*** The informal organisation represents the unofficial network of individuals that includes social interactions among its employees, which may be unrelated to the firm's formal authority structure. It depicts the personal and social relationships that arise spontaneously as people associate with one another in the work environment.

The informal organisation affects the formal organisation significantly by influencing or even pressurising the members of the latter to conform to the expectations of the informal group. Sometimes, the expectations of the informal group are in conflict with the demands of the formal organisation.

In the bank wiring room study of the Hawthornian experiments, conducted by Elton Mayo and his team, it was observed that although the workers were paid according to their output, they had established an informal daily norm of 6600 units per person. The researchers concluded that the productivity of the work group was greatly influenced by the behavioural norm set by its members, the power of the peer group and the extent of the group impact on the individual behaviour.

The existence of informal organisation can also result in the generation of false information or rumours and can intensify the resistance to the change that is desired by the management. The manager should recognise the existence of the informal information groups, identify the roles different members play within these groups and use this knowledge to work effectively with them. The informal organisation, if it is handled effectively by the manager, can make the formal organisation more effective by providing support to management, stability to the environment and a useful communication channels. On the contrary, if not handled properly, the informal organisation can also affect the formal organisation in a very negative manner at a critical time, especially when a radical change is being introduced by the top management.

EVOLUTION OF ORGANISATION: DIFFERENT PHASES OF GROWTH

Organisations evolve over a period of time gradually to meet different requirements of the internal and external environments. Greiner[5] (1972) developed a model to conceptualise the growth and evolution of organisations. According to this model, the organisational growth comprises different phases. Each phase has its own cycle of evolution, steady growth, stability and eventual decline, because that phase cannot serve new needs adequately. The organisations that can go through the pain of evolutionary period by successfully managing the change advance into the next stage. The different phases of organisational evolution are described below.

- ***Phase 1—Creativity:*** At the start, an organisation needs to display a fairly high degree of creativity and innovation to create a new product and establish itself in the market dominated by established competitors. Even if the industry the organisation represents is new then also it has to be very creative in order to make the customers accept the products or services in a fairly large number. In this phase, there is little need for formal control systems, and face-to-face communication prevails. This phase is also termed as 'Foundation' (Foster[6], 2001).

In this phase, the focus of the founders is generally technical or entrepreneurial, and the management activities are generally absent or looked down upon. Communication among the employees is frequent and informal, and decisions are quick. The management also acts fast in response to the market feedback.

- **Phase 2—Direction:** As the organisation grows beyond a point, the informality and creativity that helped it in the Creativity Phase start creating problems in the attainment of optimum results. As a result, there emerges a need for a managerial framework with clearly laid out policies and procedures to coordinate the activities of different individuals. The formal systems are put in place and passion is replaced with rational decision-making.

  A functional organisational structure having a clearly outlined organisational hierarchy is introduced. Separate departments are created for different activities, like manufacturing, marketing, etc. There emerges a middle-level management for different functions, and the frontline managers or supervisors who were autonomous decision-makers in the Creativity Phase become more of functional specialists. Communication also becomes more formal and impersonal because the informal interpersonal relations of the Creativity Phase are replaced by a hierarchy of titles and positions.

  Budgetary planning starts replacing the ad hoc mechanism for allocation of resources, and systems are introduced to manage functions, like inventory and purchasing, to bring in efficiency. Formal standards are developed for different tasks and activities to ensure consistency. Performance-linked incentives are introduced to motivate the individuals. Professionally-trained managers are employed to provide directive leadership to enable the organisation survive and grow in this phase. That is why, this phase is also termed as 'Growth' phase.

- ***Phase 3—Delegation:*** A stage comes when formalisation and controls that were initiated in the Direction Phase start acting as a hindrance instead of promoting the interests of the organisation. This sets the stage for the organisation to move into the Delegation Phase. In this phase, the organisation makes an attempt to make the best use of opportunities by instituting a decentralised organisational structure and giving up some of the formal controls to empower the frontline and middle-level managers to make vital decisions.

  In this phase, different plants and units are treated as distinct business units and greater responsibility is assigned to the managers and heads of market territories to create a sense of accountability. Bonuses are used as a tool to develop team spirit and coordination among different group members of a particular unit. The top management manages these units from headquarters on the basis of periodic reports that it receives from them. Usually, the management is employed and the top management intervenes only if the situation requires. Communication from the top management is infrequent and usually occurs through correspondence, telephone, or brief visits.

- ***Phase 4—Coordination:*** Due to the decentralisation of decision-making in the Delegation Phase, the organisation falls into a **crisis of control** after some time. As a result, there emerges the problem of lack of uniformity of standards and policies, duplication of efforts and inefficiency. The top management seeks to regain control over the company as a whole by introducing some revolutionary changes; this leads to the beginning of the Coordination Phase. In this phase, emphasis is on putting in place the formal systems for achieving greater coordination among different units of the organisation. That is why this phase is also termed as 'Dominate'. Corporate architecture-systems are introduced, and the functions such as data processing, HR, R&D, etc. are centralised at the headquarters. Only the daily operating decisions are decentralised.

In this phase, there is merger of decentralised units into product groups which are treated as investment and profit centres. The headquarters is empowered even more to control and review capital expenditure decisions and performance of different profit/investment centres through introduction of formal planning procedures. Stock options and organisation-wide profit sharing are used to encourage employees to perform better and identify themselves with the organisation.

- ***Phase 5—Collaboration:*** After a certain period of time, the organisation starts feeling the need to enhance collaboration and share the learnings and good practices across the entire organisation by bringing down the isolation of different functions, profit centres, etc. Thus, the organisation moves into its last phase of evolution where there is emphasis on strong interpersonal collaboration.

  Matrix organisation structure is usually employed to institute cross-functional teams to solve problems in the form of projects through collaborative action. A more flexible and behavioural approach to management is introduced by replacing the formal controls established during the Coordination Phase with social controls and self-discipline. Different formal controls are merged into a single multipurpose real-time information system like SAP that guides daily decision-making processes.

ORGANISATION DESIGN AND STRUCTURE

While establishing a business entity, the top management has to decide what kind of organisation structure would enable them to achieve their objectives in a most optimum manner. Organisation design is the process of establishing an appropriate organisation structure. There are different types of organisational designs with which various types of organisational structure are created.

Organisation structure is conceived and established by the top management as the formal decision-making framework by which job tasks are divided, grouped and coordinated, and formal reporting relationships between different positions in the organisation are outlined. It is a management tool that is instituted to create an environment which ensures human performance by making the best use of the available resources to achieve organisational goals.

The formal organisation structure can be displayed and represented in the form of a chart depicting job titles, lines of authority and relationships between departments and positions. The solid lines in the chart depict authority relationships and the dotted lines represent advisory relationships.

Types of Organisation Structure

Differences among various organisation structures are enormous, but still there are many similarities that enable them to be classified under select broad categories. One widely used classification of organisation structure is a twofold system (mechanistic form versus organic form) developed by Tom Burns and G. M. Stalker[7] in their study of electronics firms in the United Kingdom. This classification is described below.

(a) The **Mechanistic Structure** is the traditional or classical organisation design that is common in many medium- and large-sized organisations. It is somewhat rigid as it consists of a well-defined hierarchical structure and clearly delineated jobs. It relies heavily on the formal chain of command for control. Bureaucratic organisations are a key example of the mechanistic organisation structure. The organisations with a mechanistic structure usually have a narrow span and have a pyramidal organisation structure.

(b) The **Organic Structure** represents more flexible, adaptable and participative form of management, which does not have a clearly outlined organisation structure. The organic organisation is relatively open to the environment and to the phenomenon of change in order to capitalise on new opportunities and to align itself with the changing business environment.

The organisations with organic structure have a relatively flat structure with only few levels of management so that they can rapidly respond to customers' needs or changes in the business environment. The companies having organic structure are successful because they are able to remove the barriers put up by hierarchy. For example, IBM once had 27 layers from top to bottom; now it has a maximum of seven. In the flat organisation structure of Pepsi, there are maximum of four reporting levels[8]. Unlike most Fortune 500 companies which had around 8-10 management layers between the CEO and the employees, Nucor Corp. (a leading steel manufacturing company of the USA) had only four management layers[9] (Figure 10.2) .

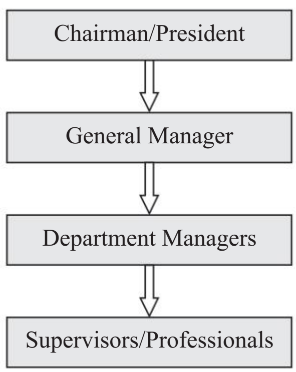

Figure 10.2 Nucor Organisational Structure

Adapted from: Iverson, Ken, Plain Talk: Lessons from a Business Maverick. First edition, New York: John Wiley & Sons, Inc, 1998.

The organic structure can save a lot of time and money of the organisation, but it requires more discretion be given to each employee. Many transnational companies have begun to transform the classic hierarchy of headquarters-subsidiary relationships into an integrated network of specialised yet interdependent units.

Some basic organisational designs or structures are: functional organisation, divisional organisation, matrix organisation, strategic business unit (SBU), boundary-less organisation and virtual organisation. These are briefly discussed here.

- ***Functional Organisation:*** The functional organisation structure, prevalent in traditional organisations, groups related occupational specialties or processes under different specialisations, such as finance, manufacturing, marketing, accounts, research, etc.

  This structure, based on occupational specialisation, leads to efficiency and economy, but the organisation risks losing sight of its overall interests and objectives as different departments focus on their own goals and objectives.

- ***Divisional Organisation:*** In a divisional organisation design, the corporate house or group is divided into different divisions that are relatively autonomous and operate as self-contained strategic business units (SBUs). For example, General Motors' autonomous divisions included Chevrolet, Pontiac, Buick, Cadillac and Saturn.

  In a conglomerate organisation, various divisions may be totally unrelated to one another but they perform under the larger corporate umbrella. A central headquarters, focusing on results, coordinates and controls the activities of different divisions and provides them necessary support services. Functional departments that exist within a division enable it to accomplish divisional goals.

  The disadvantage of the divisional organisation design is that there is high probability of duplication of similar activities in different divisions that can increase the overheads of the organisation and can lead to inefficiency.

- ***Matrix Organisation:*** The matrix organisation structure is developed by superimposing a project structure upon the functional structure. It utilises both the functional as well as divisional chains of command simultaneously in the same part of the organisation. This structure assigns specialists from different functional departments to work together on one or more projects as a cross-functional team that is led by a project manager.

  Although the principle of unity of command states that each person in an organisation should take orders from and report to only one person, yet in the matrix structure the members of a cross-functional team report to two or more managers (project managers and functional heads). Project managers have authority over activities geared towards achieving organisational goals while functional managers have authority over tasks and activities related to their department and promotional decisions and performance reviews of the employees of a particular function. The matrix structure facilitates working on parallel projects by creating a dual chain of command—the project manager and the functional manager—for managing cross-functional projects.

  This structure is ideal for organisations on the cutting edge of knowledge or those which face intense competition and have to reinvent regularly in line with the changes in the business environment. It is very useful to develop a new product or to solve a problem that spans across several departments. It allows the organisation to take advantage of new opportunities by assigning specialists from different functional departments to work on one or more projects being led by project managers. Matrix organisations are particularly appealing to those firms which want to speed up the decision-making process.

  Limitations: The matrix organisation structure has received a mixed response in the organisations where it has been implemented because of the following limitations:

  (a) The project manager has responsibility over activities geared towards achieving organisational goals while the functional manager has authority over promotional decisions and performance reviews of the people who are part of the team headed by the project manager. Therefore, the project manager has limited authority over people whom he/she is leading for the execution of the project.

  (b) The matrix organisations may not allow development of long-term working relationships because the teams are instituted for a particular project and disbanded after the completion of the project.

(c) Using multiple managers for one employee may result in confusion as how to manage evaluation and accountability. Thus, the matrix system may lead to conflicts between project and functional interests.

- ***Strategic Business Unit (SBU):*** SBUs are distinct business units within a large company. They are virtually treated as separate businesses because they have adequate size, their own mission and own set of competitors, and can be planned separately from the other entities of the company. Therefore, a manager can be appointed to head an SBU and can be made fully accountable for its profitability and operations. The main advantage associated with this form of division of organisation is that the SBUs can be provided with specific focus and their heads can manage them with entrepreneurial zeal and enthusiasm.

  The areas that merit consideration while setting up the SBUs are discussed below.

  (a) The concept of SBU is an anti-thesis of the concept of core competence which advocates that an organisation should focus on its area of core competence. Therefore, the organisation needs to strategically plan how many SBUs it should ideally have.

  (b) The top management and the corporate headquarters have to ensure that there is sharing of learning and cross-pollination of good ideas and practices across different units within the group companies so that isolated silos are not created and there is leveraging of investments made by one unit for the entire company/group.

  (c) Development of core values and philosophies for the entire group and ensuring that these are practised across the different SBUs. This facilitates in creating a shared organisation culture across the group companies. For example, GE realised that it is a conglomerate and has to create a common culture of learning and sharing to create a single group identity.

- ***Virtual Organisation:*** This type of organisation comprises a group of independent people or organisations that come together to execute a project or render a service to an ongoing activity and then disperse. Setting up of virtual organisations is made possible by telecommuting, off-shoring, outsourcing, strategic alliances and customer-organisation linkages. Taking advantage of globalisation and technological innovations, organisations form relationships (intellectual property licensing, distribution channels, service providers, etc.) with customers, suppliers and competitors. They are usually connected with each other through information technology tools, like the Internet, video conferencing, etc.

  The virtual organisation structure lays a strong emphasis on project execution by cross-functional teams. The members of the cross-functional teams come together for the execution of tasks physically or virtually and disband after the successful execution of the task. They may reassemble for a new task as the same or almost same team as the earlier one or an altogether different team. The virtual organisation design dissolves horizontal barriers and enables the organisation to respond quickly to environmental changes and to spearhead innovation to execute a task.

  Virtual organisation enables lot of flexibility as it is very less taxing on the management time and does not require creation of additional infrastructure. Another important advantage is that it creates without any long-term liability or overhead certain unique competencies that may be required for a limited period.

  A virtual organisation can be created at short notice as most of the required human resources are well-trained and well-equipped in their domain and are ready to operate with few project-specific instructions. The only disadvantage with this form of organisation is that the focus is specific to the task, and there is little sense of belongingness and ownership among the members.

Dell is a classic example of a virtual organisation. It assembles a wide range of computers, laptops and servers without manufacturing the components itself. All the parts are ordered from established vendors, which make them available almost on time (JIT – Just In Time) for assembling. This ensures minimum risk and inventory for the company. It also enables Dell to focus on its core activities which are online sales and marketing.

- ***Boundary-less Organisation:*** This form of organisational design is not defined or limited by horizontal, vertical or external boundaries that were imposed by the traditional organisation structure. Jack Welch, former CEO of General Electric, first employed this 'un-structure' to facilitate increased interactions with customers and suppliers. A boundary-less organisation is ideal for learning organisations which work on the basis of team collaboration and encourage sharing of information across functions, departments and divisions.

No single form of organisation structure can be termed as ideal for all types of organisations. If the mechanistic organisation structure is best suited for organisations handling repetitive operations and working in stable environments, then the organic organisation structure is best suited for organisations performing uncertain tasks in a changing business environment. The absence of an ideal organisation structure has led to the development of the contingency approach towards the concept and application of organisation structure.

The contingency approach states that the choice of the most appropriate structure for an organisation depends upon technology, organisational size, goals, strategy, environmental stability and the characteristics of employees. For example, the merger of the State Bank of India with its subsidiaries or affiliate banks to form a single organisation is necessary to take on international banks. It would no doubt create advantage in the form of size and economies of scale, but it would also create the problems of seniority for employees and branch rationalisation, and managing such a huge paraphernalia, may cause initial hiccups[10].

DEPARTMENTATION

Within an organisation design and structure, a department is a distinct area or a branch of the organisation which handles tasks of similar nature. A department has a manager as an authority for ensuring the performance and coordination of its tasks and responsibilities. Departmentation is a managerial process that forms the basis on which work or individuals are grouped into manageable units. It involves grouping of similar tasks and jobs that have been classified through work analysis and specialisation for their effective coordination by appointing a managerial authority over them.

Figure 10.3 depicts various types of departmentation. Traditionally, the work activities in an organisation have been grouped in five types of departmentation that are described below.

- ***Departmentation by Function or Functional Departmentalisation:*** In a functional departmentation, similar occupational specialities or processes are grouped together under functional systems or units of finance, manufacturing, marketing, accounts, research, etc. Specialist managers with commensurate knowledge, skills and orientation for the specialised tasks are appointed as heads of those functional units.

This form of departmentation leads to specialisation and high efficiencies. But there is a threat of losing sight of overall organisational interests because different departments tend to pursue their own goals.

- ***Departmentation by Product or Product Departmentalisation:*** This form of departmentation assembles different activities of an organisation in accordance with different product types that it manufactures and markets. Managers are then appointed as heads for different activities related with different products of the organisation. For example, major retail stores are structured around product groups such as home accessories, appliances, clothing, books, etc.

  This form of departmentation enables organisations, which sell a large number of products, to simultaneously focus on different products. If these organisations adopt any other form of departmentation, then some of the products might get relatively less attention than they actually deserve.
- ***Departmentation by Geographical Regions or Geographical Departmentalisation:*** In this form of departmentation, different jobs are grouped on the basis of territory or geography. For example, companies organise their foreign subsidiaries, sales and marketing departments by regions such as South Asia, Europe, North America or Northeast, Southeast, Northwest, etc.

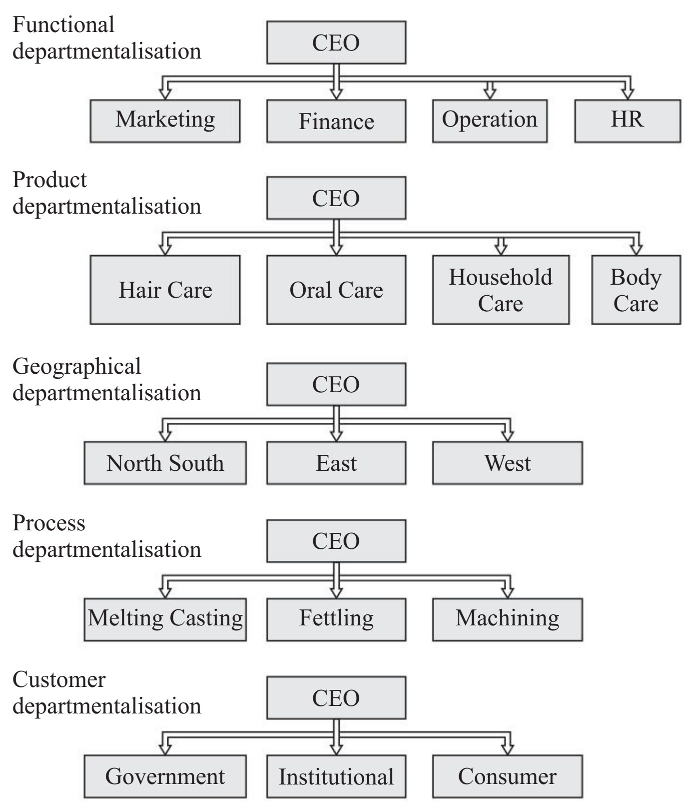

Figure 10.3 Different Forms of Departmentation

This form of departmentation appears to be logical for large national or multinational companies as it enables them to manage their operations in different geographical regions. It allows them to appoint managers for different geographical regions and make them accountable for the success or failure of the organisation in that region.

- ***Departmentation by Process or Process Departmentalisation:*** In this departmentation approach, activities in an organisation are grouped on the basis of different steps involved in the process of manufacturing and delivery of a product or service. As different steps of the process require different types of skills, this departmentation offers a basis for homogeneous categorising of work activities. Accordingly, the human resources with similar skills get to work together for a specific part of the entire process under the supervision of a manager who has considerable knowledge, skill and experience in the concerned field.

  For example, a patient who has to undergo an operation has to follow a process of preliminary diagnostic tests, admission to hospital, performance of surgery, post-operative care, payment of dues, discharge from the hospital and out-patient attention. These different services are provided by different individuals having very different skill-sets. These services can be grouped into different departments.
- ***Departmentation by Customer Group or Customer Departmentalisation:*** Some organisations serve very different market segments by offering very different types of products and services or by offering a similar type of product as a solution for a very different type of need of different types of customers. These customers can be served effectively with very different channels and organisation structures having people with different skill sets. This form of departmentation groups jobs on the basis of a common set of needs or problems of specific customers.

The current departmentation trend is to structure work according to customers, using cross-functional teams. Organisations can also have different departments, managers, channels or divisions to serve industrial and consumer markets, urban and rural markets, etc. For instance, an organisation selling lubricants may classify its market as consumer and industrial sector. It can classify its sales and distribution channel according to these different markets to serve them effectively, although the product is almost the same.

DIVISION OF WORK AND SPECIALISATION

This constituent of the organising function involves dividing large complex activities to be performed by a particular department into simple routine activities, termed as jobs, that can be performed by a single individual. These jobs are then assigned to different individuals who are specialists for respective jobs or activities. The objective of division of work is to ensure that each specialist performs the assigned task in an effective and efficient manner with ease and little training.

The extent to which the departmental tasks can be divided into separate jobs is determined by the requirements of the work process and the skill level of the employees who have to execute jobs.

Advantages of Division of Work

- It enables the selection and appointment of an individual who is an expert for a particular job.
- It allows employees to master their respective tasks in a minimum amount of time and with least amount of effort.

- It helps in determining the optimum workload for different job positions.

Disadvantages of Division of Work

- It creates many different, but mundane jobs, which need effective managerial coordination.
- Human problems have been created on account of division of activities and creation of specialisations. One problem is of monotony and boredom because the same and very simple routine job has to be repeated almost daily. This offers little professional challenge and can lead to less quantity and quality of work, increased absenteeism and higher employee turnover.
- It can also create mental fatigue and stress.

SPAN OF MANAGEMENT OR SPAN OF CONTROL

Span of Management or Span of Control refers to the number of subordinates that can be adequately and effectively supervised by one supervisor/manager. Depending on the number of subordinates that are put under a single manager, the span of control can be broadly classified into the following two categories:

- Narrow Span of Control
- Wide Span of Control

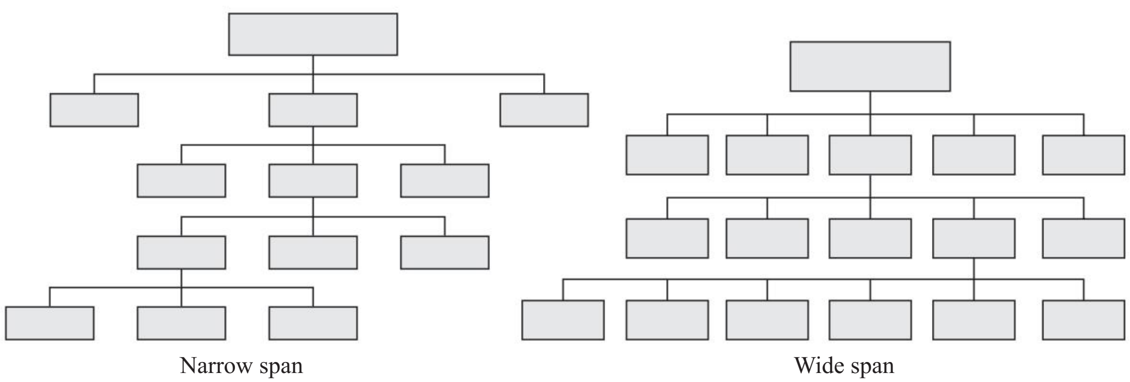

Figure 10.4 Spans of Control

Narrow Span of Control

The narrow span of control involves a hierarchical organisational structure wherein a small number of subordinates report to a single manager. Thus, it leads to a taller organisation structure with many hierarchical levels.

Advantages of Narrow Span

- There is a possibility of closer supervision.
- Less competent individuals can be managed effectively.

- Monitoring of performance and execution of control is relatively easier.
- It facilitates faster communication between the superior and his/her immediate subordinates.
- It offers an opportunity to motivate people by promoting them to higher levels and offering them lofty job titles.

Disadvantages of Narrow Span

- It creates many levels of management, which can lead to higher chances of filtering, distortion and delay in communication across different levels.
- There can be unnecessary interference as the superiors can get too much involved in the subordinates' work.
- It leads to higher operational costs and increased overheads due to many levels.

Wide Span of Control

The wide span of control involves a relatively flat organisational structure with fewer hierarchical levels and a good number of subordinates reporting to a single manager.

Preconditions for Wide Span of Control The wide span of control can be employed by an organisation only in the situations that fulfil some of the pre-conditions specified below.

(a) A clear set of policies must be prevalent to guide the behaviour of employees. These policies help the employees make routine decisions without seeking too much help from their superiors. Thus, the superiors are not excessively bothered by the presence of a large number of subordinates.
(b) Competent subordinates must be carefully selected as they require little handholding from their superiors for executing the routine element of their job.
(c) The superiors should be encouraged and trained to delegate whatever can be delegated to the subordinates.

Advantages of Wide Span of Control

- There are lower overheads.
- The superiors are forced to delegate because they are responsible for a large number of activities.
- Faster communication across hierarchical levels with lesser distortions is possible because of relatively flat organisation structure.

Disadvantages

- It requires highly competent managers and subordinates.
- There is probability of overloading of superiors as they are assigned a large number of tasks.
- There is danger of superior's loss of control as they are overburdened and have to manage a large number of people.

Factors Determining the Span of Control

The ideal span of control for an organisation or a department is determined on the basis of the following factors.

- ***Competence of supervisor and subordinate:*** The organisation can adopt the wide span if the competencies of the employees are relatively higher. If the employees are not so competent, the organisation would have to implement the narrow span.
- ***Degree of interaction between supervisor and subordinate:*** If the nature of the task is such that frequent interaction is required between the superior and the subordinates, the organisation would have to go for the narrow span. If little interaction is required between them, the wide span of control can be implemented.
- ***Hierarchical level of a manager:*** Lower-level managers can have a relatively wider span as they have to manage similar activities whereas the span for top-level managers might not be that wide as they have to manage very diverse activities.
- ***Nature of activities to be supervised:*** Wider span is appropriate if the activities to be performed are similar, and narrow span is more suitable when heterogeneous activities are to be performed by the subordinates.
- ***Incidence of new problems in the unit:*** The narrow span is more effective if there is a higher probability of new problems occurring during the execution of a task. On the contrary, when the number of new problems is likely to be less, the wider span can be instituted.
- ***Degree of standardisation:*** When detailed plans, well-established policies and standardised procedures are available at the workplace, the organisation can go for the wide span. On the other hand, if there is a great degree of variability and modification, the narrow span has to be developed.
- ***Physical distribution of the employees:*** The wider span is possible if the subordinates are present at a single location. If they are geographically dispersed, then the organisation should use the narrow span of control.
- ***Stability or complexity of work:*** If the nature of the tasks to be performed is simple and stable, the organisation can have the wide span of control. If there is a higher degree of complexity or instability, then it has to implement the narrow span of control.

ORGANISATIONAL RELATIONSHIPS: LINE AND STAFF FUNCTIONS

The management has to not only establish the departments and positions in an organisation structure but also determine the nature of relationship between different departments and positions. Various forms of authority relationships have to be established among different positions so that the organisational objectives can be accomplished in an effective and efficient manner. Due to the nature and extent of authority that is associated with managerial positions, different managerial functions have been classified as line and staff functions.

The line and staff concept was originally developed by the military to establish a clear understanding with respect to who has to command and who has to take orders from whom. Over the years, this concept has been adapted and applied for use in other forms of organisations as well. In the military, the line and staff division is rigid and clear as it is very important to have a clear line of authority to get the orders implemented. But in business organisations, the division is not so distinct, and there is considerable overlap of line and staff functions. These two systems of authority are described below in detail.

Line Authority

The line authority represents superior-subordinate relationships for functions, which are directly responsible for accomplishing the key objectives of the enterprise. A line professional has the authority and responsibility for his or her role and hence is authorised to make decisions in that regard.

Essentially, the line identifies those positions that possess command and authority in the organisation. The superiors in the line function exercise direct supervision and control over their subordinates.

Line authority is in accordance with the Scalar Principle of Henry Fayol[11], which states: clearer is the line of authority from the topmost management position to every subordinate position in an enterprise, clearer will be the responsibility for decision-making.

Line relationships are represented vertically in an organisation chart by a solid line and the orders come down from the top along the same line. Similarly, requests for changes and improvements are made by the subordinates in an upward direction by following the same line of authority.

Staff Relationship

Staff identifies those positions or functions in an organisation that don't command a decision-making authority. These are support positions providing services, advice, assistance, support and counsel required by the people in the chain of command or line authority to enable them to perform their duties effectively and efficiently. The nature of staff relationship is advisory; therefore, the function of staff personnel is to investigate, research and then give advice to the line managers. It is for the line managers to decide whether to take any decision with respect to the given advice. Staff personnel lack authority to implement their solutions themselves. Staff positions are usually identified in an organisational chart by coloured or broken lines. Examples of staff position include human resources, accounting and finance function, etc[12].

Advantages and Disadvantages of Line and Staff Functions

Advantages and disadvantages of the classification of managerial roles into line and staff functions are described below.

Advantages

- ***Focus on Results:*** Staff personnel are entrusted with the task of investigation, research and giving advice to line managers on how to accomplish tasks and goals (the main functions of the organisation). This frees the time of the personnel occupying line positions and creates a situation where they can utilise more of their time to perform their key responsibility and deliver the results for which an organisation exists.
- ***Better supervision and control:*** It helps in maintaining control over the subordinates and discipline in the organisation and getting the subordinates to obey the orders and directions of the superiors.

- ***Support for Decision-making:*** Most of the decisions are taken by line personnel for which necessary information is supplied by staff personnel. This division of roles makes the decision-making easier and less time consuming, as line managers can make informed decisions without wasting too much time in search of necessary information.

Disadvantages

- ***Lack of well-defined demarcation:*** In practice, it becomes difficult to classify different functions as purely line functions or purely staff functions. Confusion may be created in the organisation because of overlapping of roles, as there exists a line authority within the staff function.
- ***Problem of co-ordination:*** Line managers and staff personnel are expected to work together with each other so as to accomplish various organisational goals. Creation of distinction between the line and staff functions leads to the problem of coordination between the two functions, especially in large organisations.
- ***Line and staff conflicts:*** There can be conflicts between line and staff managers because of the difference in the nature of line and staff functions. Line managers clash with staff personnel as they feel that staff personnel invade their territory and dilute their powers but are not accountable for their actions. Staff personnel believe they are not accorded due recognition and respect for their contribution.
- ***Lack of conceptual thinking by line managers:*** Line managers don't find time for conceptual thinking so essential for organisational growth and development because they remain quite busy in their day-to-day operations. Thus, this division hinders the intellectual and conceptual development of line managers.
- ***Autocratic approach:*** The concept of line authority is essentially based on autocratic approach and can result in primarily one-way communication (downward communication). Sometimes the manager at the top may be devoid of the clear-cut knowledge of the actual situation at the grass-roots level.
- ***Uneconomical:*** It is somewhat expensive to maintain the line and staff structure as it increases the overall expenditure of the organisation.
- ***Misperception:*** Staff personnel feel that line managers neither make the right use of their talents nor they are open to new ideas. On the other hand, line managers feel that staff personnel have little experience of operational activities; therefore, their recommendations and ideas may lack applicability.
- ***Authority Issues:*** Since staff personnel lack authority, they may not be in a position to get their solutions implemented, even if they are certain that their recommendations are highly appropriate and in line with the requirement of the organisation.

Line and Staff Conflicts

Although line managers and staff personnel are expected to work together for the accomplishment of organisational goals, there are many factors which contribute to the conflicts between them. The difference between the nature of line and staff functions leads to these conflicts. Given below are some of the reasons that cause line and staff conflicts in organisations.

(a) Staff personnel perceive that line managers are not open to their new and innovative ideas.
(b) Staff personnel generally feel that line managers do not make the right use of their talents.
(c) Line managers feel that staff personnel are not accountable for their actions.
(d) Line managers feel that staff personnel invade their territory and dilute their powers.

How to Handle Line and Staff Conflict

Line and staff conflicts can be handled by taking the following actions.

(a) Having clearly defined roles and responsibilities for line and staff positions.
(b) Having clearly defined authority relationships between line and staff functions.
(c) Ensuring proper utilisation of staff talent by line managers through proper systems and policies.
(d) Making staff personnel partially accountable for the outcome of the actions that are instituted on the basis of their recommendations.
(e) Staff personnel should present their recommendations to line managers for different problems in as complete a form as possible, leaving only their acceptance or rejection to line managers.

Choosing Between Line and Staff Career

What sort of function, line or staff, should be opted for as a career by management graduates, that is, future managers? Over a third of Harvard's MBA graduates chose to work in staff positions during the 1980s. In earlier years, this percentage was even higher.

In a weak economic scenario, when there are lot of competitive pressures, people performing staff functions of planning, advising and analysing business situations sometimes move into line positions. In new position, they are required to set priorities, make decisions and motivate people to contribute to the aims of the enterprise. While some staff personnel can make an effective transition into line positions, others fail showing that line work is different from staff tasks. Thus, aspiring managers should carefully analyse their strengths, weaknesses and motivations before choosing their career paths.

EMPLOYEE EMPOWERMENT: CENTRALISATION VS DECENTRALISATION

After deciding upon the organisation design, nature of departmentation, division of work and span of control and establishing the nature of relationship between line and staff functions, the next step in organising is taking decision on the degree of empowerment of employees at different hierarchical levels. In other words, deciding the type of authority system for an organisation is part of the managerial responsibility of organising. (The phenomenon of employee empowerment has been discussed in detail in the section 'Empowerment of Self and Others' in Chapter 11 on Power and Authority.)

On the basis of concentration or distribution of power at different levels of management, there emerge two managerial power structures: centralisation and decentralisation. Organisations can adopt a highly centralised or highly decentralised power structure or can adopt a structure that lies somewhere in between the two extremes.

An organisation can be termed as centralised and decentralised on the basis of the level at which most of the decisions are made within the organisation. (This phenomenon has been discussed in detail in Chapter 11 on 'Power and Authority'.)

ORGANISATION CULTURE

Organisation culture is perceived to be an enigma in the management literature because it comprises a set of complex and highly interwoven elements often termed as 'soft' issue. Different scholars have tried to define organisation culture in entirely different ways because of its vague and imprecise nature. Schein[14] (1990) defined organisational culture as 'a pattern of basic assumptions invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and integration that has worked well enough to be considered valid and, therefore, is to be taught to new members as the correct way to perceive, think, and feel in relation to those problems? Hatch[15] (1993) extended this definition further to include the processes of manifestation, realisation, symbolisation and interpretation as a part of cultural dynamics.

Kotter and Heskett[16] divided corporate culture into two parts: (a) the pattern of shared values and beliefs that helps individuals understand organisational functioning (invisible) (b) those conventions that provide them with norms of behaviour (visible).

Quinn and McGrath[17] (1985) proposed four predominant forms of organisation culture as: rational, ideological, consensual and hierarchical. According to Schein[18] (1985), organisation culture manifests itself at three fundamental levels: at the observable level are artifacts; underneath artifacts lie values; and underlying the values at the core are basic assumptions.

Organisation culture represents what is actually practised and not what is desired. It comprises the values in action in daily operations and decision-making. For instance, new employees at Sasken Technologies are encouraged to discover the work culture and core values by interviewing the existing employees at random rather than looking for them in company handouts and presentations.

The basic principles which form the basis of excellent employee relations and great work culture at Nucor, North America's leading steel producers, are as follows[19].

1. The management is obligated to manage Nucor in such a way that employees will have the opportunity to earn according to their productivity.
2. Employees should be able to feel confident that if they do their jobs properly, they will have a job tomorrow.
3. Employees have the right to be treated fairly and must believe that they will be.
4. Employees must have an avenue of appeal when they believe they are being treated unfairly.

Importance of Organisation Culture

Organisation culture plays a vital role in the overall working of an organisation. This soft but extremely vital constituent of the organisational system has a major impact on the organisational performance, acceptance of and resistance to change, and employee motivation. This seeming to be soft but actually hard dimension of the organisation is very difficult to change once it is established. It is extremely difficult to copy or replicate and evolves over a period of time. Daniel DiMicco, CEO-Nucor Corp, has rightly said, 'Other companies can buy similar equipment to us, but the culture is our'.

The vitality and importance of organisation culture can be understood from the following viewpoints:

(a) Wisdom and resources of a few employees, even with great commitment, may not be adequate to attain great success for organisations in the present-day hyper competitive context. Therefore, involvement of a large number of members has to be ensured by building up an appropriate organisation culture in order to deal with the enormity of business challenges[20].

(b) A recent research from Dension Consulting concludes that companies demonstrating higher levels of performance in key areas of corporate culture—including adaptability, consistency, mission and involvement—deliver better results when it comes to return on assets, sales growth, and increased value to shareholders[21]. As culture and related corporate realities interact to influence performance (Sathe[22], 1985), organisations need to be aware of these shared perceptions, and examine whether these perceptions are consistent with the desired objectives, strategies and tasks.

In a country where downsizing and layoffs are fairly common, Nucor Corp has not laid off a single employee nor shut down any of its plants, yet it is credited with not reporting a loss in any business quarter for 30 years (1972-2002). The company's success is attributed to its culture. While in some organisations one or two men make 50 bolts per minute, Nucor had one man operating four machines making 400 bolts per minute. Iverson, the founder of the company said that "I'm certain that our culture accounts for more than half of our success as a business[23]".

As a testimony to organisation culture at Tata Steel, Mahatma Gandhi while speaking at the Indian Association, Jamshedpur, on August 8, 1925, said: 'I wish this great Indian firm (Tata Steel) all the prosperity that it deserves and to this great enterprise every success. And may I hope that the relations between this great house and labourers who work here under their care will be of the friendliest character… .They should be a great family living in unity and harmony… capitalists being trustees of the welfare of the labouring classes under them[24].'

(c) Schein[25] (1990) emphasised that "Without the analysis of organisation culture, we cannot really understand change or resistance to change. The more one attempts to design the fundamental strategies of the organisations, particularly in the human resource area, the more important it becomes to help them to decipher their own cultures… . Many organisational change programmes fail probably because they ignored cultural forces in the organisations in which they were to be installed.

(d) Organisation culture plays a vital role in the success and failure of corporate mergers and acquisitions (M&A). In large corporate mergers and acquisitions, an estimated 30 per cent of integrations get stuck or fail outright due to cultural issues. Disparities in corporate culture and the tendency of one culture to become dominant create a 'win-or-lose' mindset that injects a good dose of mistrust into an already complicated process[26].

Kell and Carrot[27] found a greater incidence of successful mergers between companies in which employees displayed similar leadership styles or where the cultures tolerated different ones. They noticed that while a company's culture can be changed slightly, a vast change may depend on the ongoing 'hiring of people who represent the direction in which you are headed.'

Due diligence to organisation culture is critical while making merger and acquisition decisions. N. S. Rajan, Partner (Human Capital), Ernst & Young, stated that sometimes organisation culture is not given the importance it deserves in strategy formulation and implementation as financial considerations get overplayed.

A Mercer Management Consulting study shows that less than 50 per cent of acquirers outperform industry average and nearly 50 per cent of senior executives in acquired firms leave in the first year. And, the competition can gain steeply if transition is not fast enough. Productivity takes a backseat and politicking can come to the fore if people's issues, at least the most critical ones, are not addressed upfront[28].

Shabbir Merchant, Vice-President (Consulting Services), Grow Talent Co. Ltd, highlighted the importance of the cultural integration by saying, 'Can you imagine what will happen if one company values cost-consciousness and encourages its employees to fly economy and stay at budget hotels; and the other company is known for its flamboyance, and most of its employees travel business class, stay in five-star hotels and get chauffer-driven airport transfers? How will these employees reconcile to the new entity and what will be the culture that the new entity will adopt?' These are some of the issues that have to be identified and addressed before the M&A decision is taken.

'Cultural issues can become major if not addressed properly. If one organisation is very paternal and feudalistic and the other more open and transparent, when both get together, culture can definitely become an issue', said Arun Thiagarajan, former Managing Director and Country Manager, ABB India.

(e) Organisations need to review the suitability of their culture in a given scenario if they need to ensure congruence between optimum productivity, organisational culture and changing business environment.

(f) Culture is the glue that binds the organisation together. It is one of the key characteristics that defines what an organisation is and strongly influences what it would be like in the near future. GE recognised early on that in a multi-business company, the common denominators are people and culture.

(f) Culture becomes the personality of the organisation. For example, Nucor Corp is known for its work culture and commitment towards employees. Due to Nucor's high wages and job security, it was even listed as one of the 100 best companies to work for in the US. The influence of its culture was summed up by a division manager as, 'It's amazing what people can do if you let them. Nucor gives people responsibility and then stands behind them[29]'.

(h) Organisations depend on innovation for growth and high performance, which in turn depend on employee initiative, risk-taking and trust-all qualities that are either squelched or nurtured by an organisation's climate (Rosenthal and Masarech[30]).

Points to Remember

1. Organising is based on the coordination of the complementary skills so as together everybody can achieve the goals and objectives of their group more effectively and efficiently. It represents activities that result in formal assignment of tasks, authority and responsibility to groups and individuals and establishing coordination among them.
2. The constituents of organising are: Organisation (Organisation Design, Organisation Structure, Departmentation and Organisational Relationship), Span of Control, Employee Empowerment (Centralisation and Decentralisation, Power and Authority, and Delegation), and Organisation Culture.

3. The organising process comprises these steps: review of plans, determination of the activities to be performed to implement the plans, creation of a job, departmentation, establishing organisation structure, and determination of authority.
4. An organisation involves two or more people with ideas and resources, working together in a structured, formal environment to achieve common goals. It is a social and managerial system with a clearly defined boundary, which pursues collective goals through planning, hiring human resources, directing their effort and controlling the performance.
5. Organisations can be classified as formal organisations, and informal organisations.
6. The different phases of organisational evolution are: Creativity, Direction, Delegation, Coordination, and Collaboration.
7. Some basic organisational designs are: functional organisation, divisional organisation, matrix organisation, boundary-less organisational and virtual organisation.
8. Organisation structure is conceived and established by the top management as a formal decision-making framework by which job tasks are divided, grouped and coordinated, and formal reporting relationships between different positions are outlined.
9. Tom Burns and G. M. Stalker classified organisation structure as the twofold system: mechanistic structure and organic structure.
10. Departmentalisation is a managerial process that forms the basis on which work or individuals are grouped into manageable units. It involves grouping of similar tasks and jobs that have been classified through work analysis and specialisation for their effective coordination by appointing a managerial authority over them.
11. Departmentation can be done on the basis of Functions, Products, Geographical Regions, Process, and Customers.
12. Division of work and specialisation involves dividing large complex activities to be performed by a particular department into simple routine, activities termed as jobs, that can be performed by a single individual.
13. Span of control refers to the number of subordinates that can be adequately and effectively supervised by one supervisor/manager. Depending on the number of subordinates that are put under a single manager, the span of control can be broadly classified as: Narrow Span of Control and Wide Span of Control.
14. Line authority represents superior-subordinate relationships for functions, which are directly responsible for accomplishing the key objectives of the enterprise. A line professional has the authority and responsibility for his or her role and hence is authorised to make decisions in that regard.
15. The staff function represents those positions in an organisation that don't command a decision-making authority, but are support positions providing services, advice, assistance, support and counsel required by the line authority positions.
16. On the basis of concentration or distribution of power at different levels of management, there emerge two managerial power structures: centralisation or decentralisation.
17. Schein (1990) defined organisational culture as 'a pattern of basic assumptions invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and integration

that has worked well enough to be considered valid and, therefore, is to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.'

18. Quinn and McGrath (1985) proposed four predominant forms of organisation culture: forms rational, ideological, consensual and hierarchical.
19. According to Schein (1985), organisation culture manifests itself at three fundamental levels: as artifacts at the observable level; as values underneath the artifacts; and as basic assumptions underlying the values at the core.

Review/Discussion Questions

1. Define organising.
2. What are the different constituents of organising?
3. Explain the process of organising.
4. What is the purpose and importance of organising?
5. Define organisation.
6. How can we classify organisations in different forms?
7. What are the different phases of growth and evolution of organisation?
8. Explain in detail different types of organisation designs and organisation structures.
9. What is the importance of decision with respect to organisation structure?
10. Define departmentation and different types of departmentation.
11. What is the role of division of work and specialisation in the overall process of organising?
12. What is span of control and what are the different types of spans and their corresponding advantages and disadvantages?
13. What are the factors that determine an appropriate span of control?
14. Critically evaluate the concept of line and staff functions.
15. How can we manage the line and staff conflicts effectively?
16. What is the role played by organisation culture in the organisational success?

Field Exercises/Class Exercises/Group Projects

1. Students should make an attempt to meet a promoter who started from a very small entity and then went on to build a large business organisation. They should try to analyse how did the organisation undergo a structural change over a period of time?
2. Students should undertake a search on the Internet and try to download different types of organisation structures adopted by different organisations.
3. Students should make an attempt to meet some staff functionaries working in an organisation and try to ask them about the nature of their relationship with line managers. What problems or challenges they encounter on account of line-staff conflict?
4. Students should meet some entrepreneurs and try to understand their views and fears with respect to decentralisation.

On the Internet

1. Log on to https://www.afresearch.org/skins/rims/q_mod.../display.aspx to understand different facets of centralisation and decentralisation through case studies.

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Case Study

Organisational Transformation of Tata Group under the Chairmanship of Ratan Tata

The Tata group has essentially been a loose confederation of companies, but it had never faced a split in its entire existence of almost 100 years. This form of organisation was deliberately created by past chairmen of the group. JRD Tata, the immediate predecessor of the current chairman Ratan Tata, played the role of the promoter as well as the key investor and strategic adviser, giving wide range of powers to the heads of different group companies. But, Ratan Tata's ideology with respect to this organisational facet was somewhat different from his predecessors as he wanted to provide unity and focus to this federal group so that there could be a more homogenized and highly-focused group in this highly globalized world.

Therefore, some form of reorganising of the group was high on the agenda of Ratan Tata when he took over as the Chairman of the Tata group to provide greater focus, business rationalisation and synergy in the enterprise. It was expected that this will result in a leaner, more aggressive and more focused Tata group, which would be quick to change with time to align itself with the rapidly changing business environment.

The need of the hour for the group was twofold. First, to get out of the businesses which were no longer the core competence of the group. By 2000, after parting with many group companies, the Tata group still had a presence in as many as 25 industries, ranging from infotech to knitwear. Secondly, a need was felt for re-establishing control over the powerful CEOs who were running different group companies as complete independent entities. A move was afoot to replace some of them with professionals who would be willing and competent to restructure these companies in accordance with the changed business scenario because of liberalisation and intensified competition.

'Speed is not one of the Tata group's strengths,' says Raj Nair, former Managing Director, Business Consulting Group in India. Indeed, the Tata group has been quick to enter newly-liberalised areas like telecom and financial services but it could not initially take a leading position in those industries as it would have expected. Other companies have taken significant lead in these new economy businesses.

By playing the role of a hands-on CEO, Ratan Tata made an attempt to transform the Tata group from a loose confederation into a homogenised and a more focused business entity.

Questions for Discussion and Analysis

1. How far do you agree with the restructuring of the Tata group initiated by Ratan Tata?
2. To what extent this reorganisation has helped the Tata group and its leader in achieving the intended objectives?

Chapter 12

Team Building: Developing People and Team

You can't do it alone!

—Anonymous

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand what is effective team, and the requirements for effective team building
- appraise different team-building interventions
- comprehend different stages of team-building and how to effectively manage them
- know how to motivate team members to perform to their potential and how to manage team conflict
- understand how to manage the termination of a project and the demise of a team

INTRODUCTION

'How' a manager performs his/her role has become increasingly complex over the years. Every day brings along with it a new change and thus a new challenge. Factors like systemic change, flexibility and restructuring have become basic requisites to achieve the desired results in the chaotic business environment. All these are very difficult to attain at the required pace by working purely in the hierarchical organisational structure which is divided on the functional lines. Such a structure often isolates the managers and the departments and makes it difficult for them to coordinate their efforts effectively to bring in the desired change or delight the customers on a consistent basis.

The luxury of order and continuity that was offered in the past by the traditional (hierarchical and functional expert-based) organisation structure is no longer available to that extent to the present-day manager. Therefore, the cross-functional teams are being regularly employed to manage changes and work horizontally by cutting across the traditional hierarchical organisation structure. Teams are increasingly becoming the primary means of organising work in contemporary business organisations. To achieve various business objectives—like expanding the market share, launching a new product or planning a special promotion—small project activities being initiated. These activities are managed by teams which plan, implement and influence business programmes.

TEAM: DEFINITION

According to Katzenbach and Smith[1] (1995), a team comprises a small number of people with complementary skills who are committed to a common purpose, a set of performance goals and an approach for which they hold themselves mutually accountable. That is why the word 'team' has been expanded in common parlance as 'Together everyone achieves more'.

The skills and abilities of team members complement the team's common purpose for the attainment of which they are interdependent on one another. Not all members may have the same type or level of skills, but together they are greater than the sum of their parts.

Difference between Group and Team

Although teams are a particular type of group, yet there lies a significant distinction between these entities. The differences between the two have been outlined below in Table 12.1.

Table 12.1 Difference between Team and Group

Group	Team
Members work independently and often towards different personal goals.	Members work interdependently towards the common goal through which they realise their personal goals. They understand that their goals can be accomplished best through mutual support.
Members focus mostly on themselves because they do not have a belief in the group's goals and objectives.	Members feel a sense of ownership towards their role in the them because they are committed to the attainment of team goals.
Members focus on personal excellence and exaltation while performing their role.	Members collaborate and use their skills and experience to contribute to the success of the team's objectives and are ready even to sacrifice their personal goals if the same is required for the attainment of team goals.
Members lack trust in one another and may not fully understand what is taking place in their group and the role each member plays in the group.	Trust is the cornerstone of the success of the team, and its members make a conscious effort to be honest, respectful and listen to every person's point of view.
Members prefer to hold back their contribution to group goals.	Members feel good to contribute to the team's success.
Members are bothered by difference of opinion or disagreements because they are perceived as threats.	Members see difference of opinions as different ways to resolve problems. They treat them as an opportunity to approach the problem more comprehensively and constructively.

Ingredients of Effective Teams

Effective teams display the following characteristics.

(a) ***Commitment for Common Purpose:*** To become a powerful team, all the team members should have a commitment towards a common purpose in which the team fervently believes. Otherwise, all the team members will perform as individuals.

Team members should not limit themselves to mere performance of their role, rather they must commit themselves to the success of the project. Commitment determines how much motivated people will be to contribute to the team goal. When the purpose and goals of the teams are backed by the commitment of their members, it leads to improved performance. If the team members are less committed, they are likely to be less motivated as the project progresses.

(b) ***Collective and Challenging Specific Goals:*** Effective teams invest significant time and effort in determining collective and individual purposes and then convert them into specific performance objectives and standards. Without the presence of specific performance goals at the individual and group levels, team members lack clarity about the contribution they are expected to make and hence they perform in a mediocre manner.

Team goals need to be clearly understandable. It will help the entire team focus on the final goal of the project that has been undertaken by the team. If the goal is challenging, then the team members feel a sense of meaning in achieving them, which builds their drive and motivation to attain the goal. Each member should also clearly understand his/her role and responsibility in enabling the team attain its purpose and collective goal. Ineffective teams fail to create a collective and challenging aspiration due to various reasons, such as ignoring the need of putting in extra effort, poor leadership and lack of emphasis on performance.

(c) ***Support of Management:*** The support that the team members expect to get from the management significantly affects their motivation, commitment, initiative or risk-taking ability and hence the team performance.

(d) ***Flexibility:*** To develop effective teams, the management should give enough flexibility to the teams within the broad controls by giving them appropriate guidelines in advance. This helps in developing commitment and motivation of the team members as they feel empowered to make a difference through their initiatives.

(e) ***Adherence to Team Values:*** Teamwork is based on values, like listening, responding constructively to others' views, providing support and recognising the interests and achievements of others. The display and promotion of these values in the behaviour of team members create a right climate for the team to work together in a synergic manner.

(f) ***Trust:*** Trust of the team members in one another and in their leader is the fundamental requirement of an effective team. Adequate trust relationship needs to be present among the teammates because without trust a team cannot be expected to perform a great job.

(g) ***Proactivity:*** A drive to take initiative must be present among the team members. Individual members should think hard to work out a solution to a common problem or the problems of other teammates. Everyone should actively participate in the project planning and implementation and should possess a feeling to stand by other team members in the time of their need. This creates a spirit of camaraderie among the team members, which goes a long way in enhancing the team performance and productivity.

(h) ***Effective Decision-making:*** To be effective while working in a team setting, organised and logical methods need to be adopted for decision-making. The decisions so taken should be approved by the team members after deliberation, discussion and building up an agreement.

(i) ***Effective Communication:*** Effective communication plays a vital role in building great teams. Therefore, communication gaps among the team members should not be prevalent for a long time and should be resolved at the earliest. In effective teams, proper and thoughtful feedback is provided, received and accepted for further improvement.

(j) ***Proper Records:*** Proper records are maintained about different facets of team working. These can be referred to in the future if need be.

Classification of Teams

Teams are of various types, depending on their nature, constituents and functions for which they are created. A classification of teams is presented below.

(i) ***Product Development Team:*** For the development of a new product, organisations often constitute teams comprising experts with different backgrounds coming from different departments and functional areas, like marketing, finance, production, engineering, R&D; etc.

(ii) ***Departmental Problem Solving Team:*** This type of team has five to twelve employees from the same department, who meet regularly to discuss the ways of improving quality, efficiency and the work environment, or for rectifying a pressing problem that is faced by their unit or department.

(iii) ***Self-managed Team:*** These teams comprise members who have a variety of skills needed to carry out a relatively complete task[2]. A self-managed team takes on the responsibilities of its former leader/manager or supervisor and manages the assigned task on its own without control and close supervision by the next level of authority. Self-managed teams are empowered to determine what needs to be done, how it would be done, who is going to do what, and by what time the task should be completed.

(iv) ***Cross-functional team:*** A cross-functional team consists of employees mostly from the same hierarchical level but from different work areas or departments. These employees come together to accomplish a particular task or project. Cross-functional teams are required to handle the issues that are either concerned with or affect different departments. These teams are an effective means for allowing people from diverse areas within an organisation to exchange information, come out with novel ideas and solve these problems that cannot be handled by a single department.

The membership of a cross-functional team is determined on the basis of who all are affected by a problem. The representative from the department that is affected the most or is likely to be benefited the most following the solution of a problem by a cross-functional team is usually made the leader of that team. A senior management representative joins the team as a facilitator.

Putting together a startup team of people with mutually-exclusive but collectively-exhaustive set of skills, expertise and experience is extremely important in the Indian context as has been demonstrated by the success of Infosys. The initial team at Infosys had Narayana Murthy with competency in the area of software; N.S. Raghavan good in the area of HRD; Nandan Nilekani in sales and marketing; Gopalakrishnan in technology; and K. Dinesh, Shibulal and Ashok Arora as project managers[3].

(v) ***Virtual team:*** A virtual team consists of members who may not be physically present at a single location at a given point of time. These members might not be directly reporting to the manager and in some cases they might not even be the employees of the organisation. But they make use of information technology tools to share information, make objective decisions and accomplish pre-stated common goals in a manner as if they are working together. Virtual teams are established for a specific purpose, and their members are assigned clearly defined tasks and responsibilities.

Although the members of a virtual team work from different geographic locations, yet it is desirable that they meet physically at the start of the project to establish rapport and understanding, and later perform from their respective locations.

Virtual teams can comprise people from the same or from different organisations (suppliers or distributors) who collaborate with one another using communication links, like Wide Area Network (WAN), Local Area Network (LAN), video conferencing or e-mail to be virtually with one another although they might be spread over a wide geographical area.

Impact of Team Composition on Productivity

It has been proven through empirical research that the nature of the composition of a team or the competency level of its team members significantly affect the output of the team members. Teams do not have to reflect the personality of their leader. Rather the team members should have strengths that are not necessarily similar to those of their leader and better if the members complement each other's strengths. But team leaders often make a mistake of hiring people who are a reflection of their own personality.

The personality traits and competence level of the team members have a significant impact on the overall productivity of the team. In an organisational experiment, undertaken in Metropolitan Life Insurance Company's Rockaway district office in 1961 by Alfred Oberlander, it was observed that new insurance agents performed better in outstanding agencies than in average or poor agencies, regardless of their sales aptitude[4].

To empirically test this assumption, Oberlander assigned his six best agents to work with his best assistant manager, an equal number of average agents to work with an average assistant manager, and the remaining low agents to work with the least able manager. 'The people in the agency began referring to the first group as a 'super-staff'. Their production for twelve weeks far surpassed the most optimistic expectations and the overall agency performance improved by 40%.'

Although the productivity of the super-staff improved dramatically, the productivity of those in the lowest unit actually declined, and attrition among them increased. The fact that the composition of team affects its performance and productivity has been proven again and again in other empirical researches.

Advantages of Teams

The most basic and often the most overlooked fundamental about successful management is that 'You can't do it alone!' There is a limit to what one can do by working alone, but a lot can be accomplished through an effectively managed and developed team. Time and again, hindsight reveals that projects fail because the manager has not built a strong team. This unwillingness, or inability, to build effective teams has been diagnosed as the primary reason of some managers' failure in building successful careers.

Teamwork plays an important role in the success of any organisation. The importance of teamwork can be understood from the following advantages associated with teams.

1. Working in teams enhances the ability of an organisation to adapt to the ever-changing environment by taking up small projects to introduce changes in a systematic manner.
2. Teamwork facilitates in carrying out of those tasks which involve complexity and cannot be handled by a single individual. It enables collaboration of multiple skills on a single platform for the accomplishment of a task. Thus, an organisation can benefit from different perspectives that the team members coming from different backgrounds, provide on an issue or concern because of belonging to different backgrounds.
3. Contribution in the form of better and large number of ideas is possible in a team setting. It facilitates informed decision-making.
4. In a well-managed team, there is a high involvement of team members while pursuing team goals. This leads to higher job satisfaction. It has been found that effective teams play a significant part in reducing attrition rate and absenteeism in an organisation.
5. Teamwork can result in an increased understanding and acceptance of people belonging to different backgrounds because while working in a team one can see the logic behind the thinking patterns of people from different departments. It is rightly said, 'The more we share, the more we learn'. Working in teams can lead to a permanent change in one's behaviour due to the experience that one gets by learning from people with diverse backgrounds.
6. Teams have the ability to compensate for the weaknesses of certain individuals, if any. Thus, a team provides a sense of security to its members.
7. There is a collective responsibility and accountability of a team to accomplish the goal. It encourages the team members to cooperate with each other to accomplish a given task.

Disadvantages of Teams

Working in teams offers great advantages, but teams too suffer from certain disadvantages/drawbacks. Some of them are mentioned below.

1. As the results or outcomes are attributed to the team effort, assessment of individual performance becomes difficult. It may be possible that some team members reap the benefits of the teamwork without actually putting in serious efforts. This phenomenon is known as 'free riding'.
2. It has been observed that teamwork takes more time and often more resources than individual work; hence it increases the cost of the project.
3. Teams have increased communication demands and also led to more conflicts owing to difference of opinion. Teams can consume lot of time as there are more number of meetings to conduct.
4. Sometimes it is difficult to hold an individual accountable for any wrong that he/she does because any wrongdoing by an individual may give an impression that the team as a whole was responsible for the misconduct.
5. Care must be taken to ensure that the right members are nominated for the team because it is observed that department heads usually nominate those individuals for the teamwork, whom they feel are less competent and their absence from the department would not adversely affect the departmental functioning.

TEAM BUILDING

There is no easy formula for developing teams. How to build a team of committed people— a coalition of supporters and collaborators— is a question that the discipline of management has been constantly pondering over.

The term team-building generally refers to the selection, establishment, development and collective motivation of result-oriented teams. It is a collaborative term for different methods and variety of practices that are employed for developing an effective team.

Effective managers or team leaders understand that their interest lies in the successful execution of the project at hand. Therefore, they have to play a key role in transforming a group of individuals—each with their own perspectives, motivations and talents—into a productive team. The nominated individuals may be having a good potential to function as a very effective team, but they do not acquire a team identity till they believe and accept that they are a single team.

Requirements for Effective Team Building

The essential requirements for building effective teams are discussed below.

1. ***Leadership Quality:*** The team leader should possess the traits and qualities of an effective leader to facilitate the creation and strengthening of the critical values and traits of an effective team, like common purpose, commitment, trust, support, etc. In the team-building process, the team leader has to act like a team coach, an authority, a problem-solver, a facilitator, a disciplinarian and as the actual assertive power that drives the team formally.
2. ***Effective Communication:*** Since a lot of employees are engaged in team work, the communication process becomes indispensable. Besides, the scope of communication is also widened greatly. It may include communicating decisions and responsibilities, defining roles, delegating authority, placing orders and receiving feedback. Challenges associated with team-building can be dealt with effectively if the communication among the team members is effective.
3. ***Clarification of Roles and Responsibilities:*** Proper clarification of roles and responsibilities of different teammates is essential to ensure that there is ample clarity about their desired performance. Any ambiguity on this count should be either eliminated or minimised.
4. ***Objective Decision-making:*** Decision-making by the team members and the team leader should be based on rationality and logic, keeping in view the ultimate goal of completing the team task successfully. This strengthens the belief of the team members in the team spirit.
5. ***Focus:*** The focus on the organisational and team goals and objectives is a necessary pre-condition for effective team-building.
6. ***Cooperation:*** An important feature of effective teams is the element of cooperation. It brings out harmony among the teammates even if they have conflicting views on a specific issue. Cooperation is important in teamwork because active and full support of each team member is required while planning strategies and then executing them.
7. ***Intuitive Thinking:*** Since teams are placed in a new environment and are mostly assigned new and challenging projects, it calls for an intuitive thinking to generate novel ideas about the future course of action.

8. ***Understanding of Human Behaviour:*** The most fundamental prerequisite for any team leader to build an effective team is to develop an in-depth understanding of human behaviour and to know what makes people motivated and inspired, both individually as well as in teams. Attempting to build a team without proper understanding of human behaviour may not be that productive and fruitful.

Team leaders must understand that individuals make up the teams and developing them is the first step towards building a team. The manager's ability to develop people's talent is most important for transforming them into good teams, and then leading them effectively.

Empirical research has developed a good number of theories about why people do what they do. But human behaviour is multidimensional, situational and as complex as one can think. Therefore, developing a single comprehensive and easy-to-understand treatise on human behaviour is extremely difficult. However, a broad understanding of human behaviour is must for any professional manager to be effective in building productive teams.

The following sections bring about the various facets of human behaviour that affect team-building significantly. There cannot be another best way to learn about human behaviour than to start from the self.

- ***Understanding of Self:*** Before trying to understand what makes people perform to the best of their ability, the team leader must first understand himself or herself. This information will not only increase the leader's awareness of his/her own motivation but will also be quite useful in understanding the motivation of others. A better understanding of the self can be developed by adopting the following practices.

  (a) **Reflecting on Past experiences:** A team leader can learn who he/she is by reflecting on his/her past experiences:

  - Where had he/she been successful in the past? What contributed to his/her past successes? How did he/she feel then?
  - Where had he/she been disappointed? What would he/she like to do differently to avoid those disappointments?
  - How well did he/she develop the people who supported him/her in the achievement of goals?

  Understanding the factors behind his/her achievement or disappointment is likely to make a manager more sensitive about himself/herself while executing the task as a team. The answers to the above questions can help one in building a self-profile with respect to team dynamics.

  (b) **Post-project Review:** By reviewing the learnings from a completed project, a team leader can know more about him/her. The post-project review can be undertaken by asking the following questions:

  - What things did I do right?"
  - Where I went wrong and what could be the reasons behind that?
  - What could I have done even better?

- How could I have accomplished the task in a more better way?
- What will I do similarly or differently next time?
- What did I learn?

The post-project reviews leads to accumulation of experiential learning, making managers understand how effective they are in managing their teams. Sports teams, for example, review their performance after each and every game.

With enhanced self-awareness, a manager begins to understand and appreciate the vast array of reasons for people's behaviour in different situations. People who are clueless about the reasons of their own behaviour have little basis to know what makes others behave as they do.

- ***Understanding Others and Knowing that We all are Different:*** Assumption by a manager that what motivates him/her will also motivate the people on his project team may not be right. The team may be working together for a common cause, for example, to develop a new software or finding a cure for a contagious disease. But some team members might be working just for salary, others could be working purely for personally motivated reasons. And even when there are similarities of motivators, the importance attached to them may be different for different individuals.

  The basic dilemma in working with people in teams lies in this paradox: 'People are alike and at the same time people are different'. Although this proposition is true, but the way it translates into behaviour is often very subtle. Maintaining a balance between treating or managing everyone in the same manner and being sensitive to individual differences is not easy.

  Human beings are all similar in a sense that they share same biological needs for food, shelter, air and water. But they differ in their preference for flavour, texture, quantity or quality, etc. They share basic psychological needs for belongingness, love, acceptance, entertainment and accomplishment. But they differ in the degree to which they want to be included or want to include others, and in their ability to love and to be affectionate. Everyone has interests, goals and a personality, but everyone's interests, goals and personality are unique. So, it can be concluded that people on teams are 'same same, but different different!'. Dealing with different personalities on a team requires considerable skill and ingenuity.

  An effective manager creates an agreeable work environment based on the understanding and appreciation of similarities and differences in the personalities of individuals who make the team. This enables the manager bring different people and their individual needs together.

  People also behave in a different manner because they have different perception of the reality. The way an individual perceives the reality is determined partly by what he/she observes and partly by his/her conditioning, thinking pattern, etc. Perceptual differences can readily influence the ways in which team members respond to organisational and managerial practices. Different individuals, for example, vary in terms of the importance they attach to job-related rewards, the style of leadership they prefer, and their tolerance and acceptance of ambiguity and job responsibility.

  An understanding of the perceptual process can help the team leader understand this phenomenon better. The perception of an individual is determined by the interaction between physiological and psychological factors. The information gathered by different senses (stimulus) does not enter the mind as raw or unprocessed data. Each person's perception or window on the world is shaped and bounded by upbringing, family experiences, education, training and cultural values. Individuals tend to interpret information in a way that is consistent with their beliefs, values and attitudes, which are shaped by larger cultural and environmental experiences.

If a manager told her associates that they were doing a good job, one person might be flattered, while another might wonder about what was wrong with the way he had been working, and the third one might be suspicious of manager's motives ('Does the manager mean it or is he/she just trying to flatter before asking to work overtime?').

It is almost impossible to treat everyone identically even if the manager wants. Some people may need to know that their work is being appreciated more than others. Some will want less variety in their routines while others will seek out new challenges; different people need to be treated differently. There is nothing as unequal as the equal treatment of unequals.

The manager must understand the following implications of human behaviour on the team-building exercise:

(a) Not to expect others to view things exactly as he/she does. No matter how clearly things seem to a team leader and how certain he/she may be about the accuracy of his/her point of view, still the differences can be expected in the manner in which others will perceive it. This is because every person filters the same information through a different screen.

(b) The manager needs to ask team members about what turns them on, find out what they want from the project (work or job), and look for the things that get them excited. This knowledge will help the manager to make sense of why team members behave as they do.

(c) Need to understand that it takes time and effort to make a team of people.

In addition to that, the challenge of motivating the individual efforts of the team members is further complicated because an individual does not behave consistently in the same way over a period of time, probably because two situations are never exactly alike.

- ***Understanding that team members will behave the way they are perceived:*** Every individual has expectations from other people. These expectations can limit the appreciation of other people by an individual. In simple words, if parent strongly want their child to be very good in studies, this focus of theirs can limit their ability to appreciate the extra-curricular talent in their child.

  People see what they expect to see rather than what is actually taking place. Expectations are truly powerful as they form frames in which people fit the behaviour of others. If a manager believes that some people on the team are lazy or unresponsive, he/she will subsequently interpret their behaviours to be lazy and unresponsive. Those people too will subsequently accept the fact that whatever they do, they will only be treated as unresponsive or lazy. So, gradually they start acting unresponsive or lazy.

  As social psychologist Douglas McGregor observed, 'Managers are prisoners of their own assumptions about human nature'. The managers' assumptions and expectations about the subordinates influence their attitudes and behaviour towards them and determines their managerial strategies. These further influence the way their subordinates work. This tendency has been called a 'self fulfilling prophecy'. It states that when we behave towards others according to the way we expect them to be, they often will act as we expect, not because of their behaviour but because of our behaviour. In effect, the actions of an individual create the situation he/she expects, thus reinforcing the initial perception.

It has been observed that the students identified by their teachers as 'highly intelligent' do better on achievement tests than the students who lack such a positive appreciation, and similarly the job trainees pointed out by their supervisors as having 'special potential' perform better than trainees not so identified. In the light of the implications of the 'self fulfilling prophecy', a manager leading a team should follow the practices given below.

(a) When a manager observes someone unmotivated, rather than perceiving him/her to be lacking in enthusiasm and labelling him/her as an unmotivated professional, the manager should try to examine why he/she is behaving that way and what in fact would motivate him/her to perform better.

(b) A manager's success in motivating others is likely to result from the implications of his/her own perceptions and ideologies regarding personal behaviour of others. Therefore, he/she needs to make an attempt for understanding the behaviour of others before making outright judgments.

- ***Understanding that Every Behaviour has Some Reason Behind it:*** Admittedly, everyone has done things in their life that are later considered to be grave mistakes or blunders. But, when one reflects on that behaviour, it is found that the act was not done with an intention to achieve the outcome it eventually led to. Therefore, when a manager sees some serious fault or mistake committed by others, then before commenting or making judgments, he/she needs to understand it from another person's point of view. The question that needs to be asked is, 'How does this behaviour make sense to that person?'. By using this perspective, a manager can be analytical and descriptive about what a person is doing rather than being evaluative and generalising about the concerned person.

  For example, it may seem to the manager that the engineering department is not effective as they have not released the design plans which should have been out many days back. But, the delay makes sense to the engineers because they believe that it will add weight to their demand for additional staff as the manager will understand that they need more personnel since it takes so long to complete design plans.

  In another instance, if a team member left the office a few hours early on Friday before the start of weekend, his/her unexplained early departure might suggest to others a lack of commitment on her part to the team project. But, her justification for leaving early may be entirely different and logical. Therefore, each person needs to understand the perspectives of other team members if the team is to work together effectively.

- ***Accepting that All People are Motivated***: A leader may complain that some members of his/her team are not motivated. But, the reality is that those persons are actually motivated to do something other than what we want them to do. All people are motivated. The question is: 'Motivated to do what?'

  Therefore, the belief of lack of motivation of people could be from the leader's perspective, not from the viewpoint of team members. It is very important to understand that managers and leaders don't really have to motivate others. They are already motivated. They only have to create an environment that allows people's motivation to be directed towards the project goals.

Motivation should be approached as an area of overlap between organisational goals and individual goals. As all behaviour is directed towards the satisfaction of individual goals, the manager should find out the needs, desires, wants and goals of the members of the project team and help them satisfy their aspirations. By doing this the chances of motivating team members' behaviour towards achievement of group goals are much higher than otherwise.

Only with an in-depth understanding of human behaviour, a manager or a team leader is adequately equipped to go ahead on the journey of team building. Without this foundation, success cannot be achieved on a consistent basis. Understanding oneself and the other people assigned to assist in the project as a team is a good beginning for making of an effective team.

Team Building Interventions

Organisations need to put in place certain key practices for building the culture of team-based working. Some of these are explained below.

1. ***Building Teammates:*** Organisations should focus on the development of desired qualities in people who would comprise a team. It should ensure that the skills essential for team-building such as leadership quality, proactivity, analytical thinking, good personality traits, etc. are adequately developed in individuals to enable them function as effective team members.

   Different developmental initiatives need to be undertaken for different individuals so that each individual is able to learn specific team-building skills that he/she is lacking.

2. ***Team Development Activities:*** Specific team-building interventions can be applied to develop better understanding of team working and team roles. Proper training can be provided to team members to perform better not just as individuals but also in a team setting.
3. ***Establishing Vision:*** A clearly articulated 'vision' of an organisation is the driving force for inspiring teams to work towards achievement of organisational goals. An attempt should be made by the top management and the team leadership to align team goals and objectives with the organisation's vision, mission, goals and objectives. If the team members are clear about the objectives of the team as well as the organisation, they will put in more efforts to achieve them.
4. ***Involvement:*** Team-building is significantly associated with job involvement. It refers to the extent to which people identify themselves with their jobs and consider their perceived performance level important to self-worth. In other words, the higher the job involvement, the better will be the group performance. Employee involvement can be built by giving more importance to their job, valuing their contribution, listening to them and giving equal rights for participation of decision-making.
5. ***Group Bonding Sessions and Socialisation Activities:*** A team is much more than a group of individuals. A group of individuals needs to be transformed into a team by organising certain activities to get the team members to know each other better and build a rapport among themselves. Social activities outside the purview of formal get-togethers should be undertaken to encourage the team members to spend time together to know each other better and relate to one another.

6. ***Instituting Team or Group-based Reward System:*** Generally, rewards are focused on the accomplishment of individual objectives or departmental objectives, not organisational goals. This type of reward system tends to push the team members apart by creating competitiveness between groups as each individual and department works for its own objectives.

It is said, 'People do not do what the leader expects, but what the leader inspects and rewards.' Thus, if an organisation wants to build the team-based culture, it needs to reward the efforts that support the achievement of organisational goals, not just individual or departmental objectives.

Stages of Team Building: How to Effectively Manage Them

The people assigned to work together as a team do not automatically become a team the day the project begins. It takes time and energy to convert a group of people into an effective team. The team leader needs to understand that the group members will pass through different stages while evolving themselves into a team. Consequently, managers and team leaders will have to play different roles in different stages of team development.

As the successful execution of the project is the supreme interest of the team leader, he/she has to play the important role of facilitating the transformation of a group into a team. The different transformational roles that a team leader and team members usually play in five different stages of their evolution as a team are described below.

(i) ***Anxiety Stage:*** When a team is brought together for the first time, it is a group of people, each with their own perspectives, motivations and talents. All the potential might be there for these people to become an effective team, but they are not yet a 'team'. During this initial stage of team-building, the team members have anxieties on the following issues.

- What the project is really about?
- What will be their role in the team?
- What will be the team leader like?
- What sort of work environment will be there in the team?
- Who are the other members on the team?
- How this team will work as compared to others they have worked with in the past?
- Whether the project will be able to deliver the results or not?

In short, there is a certain level of anxiety or nervousness at this stage. The team leader should try to reduce it as fast as possible in an effective manner if the team is to successfully pass through this initial stage. To effectively handle this stage, the team leader needs take the following actions.

(a) The team leader should have a private one-to-one encounter with the team members before meeting them collectively in a group. The team leader must minimise the effect of anxiety by developing informed team members. The team leader can provide them the following information.

- ■ Description of the project
- ■ Key goals and objectives of the project
- ■ Time frame that has been finalised for completion

- Nature of the participation expected from team members
- Contribution expected from team members.

The provision of the above information helps in creating a basic understanding about the project among team members. They also understand the role of their contribution to its success. This can reduce anxiety associated with this stage. When each team member understands his or her contribution and responsibility to the project, only then a team can be formed and work can be coordinated among the team members. This orientation can prepare the individual to enter a project team environment.

(b) The team leader can even ask the team members to analyse and review the stated key goals and objectives of the project and different responsibility areas. The team members can provide their suggestions or approval to the stated objectives which define their responsibility in the project effort. This co-creation of objectives in a controlled manner ensures the participation of team members in developing the objectives of the project. It creates involvement, empowerment and a sense of ownership of objectives in the team members.

(c) The team leader also needs to understand the psychological make-up of the team members by asking them the following questions.
   - What they want from the project?
   - What turns them on?
   - What are the things that get them excited?

   This dialogue can be used to build a rapport with the team members and the resulting knowledge can be used later to make sense of the way they behave.

(d) The team leader can also ask the team members to provide him/her their 'Needs List' so that their needs are fulfilled to ensure their good performance in the assigned task. The 'Needs List' describes what exactly is needed, for what purpose and when.

(e) The team leader can also explain to the team members how the communication and reporting process will work. They need to be informed about the following aspects of communication.
   - How the information reported by them will be passed on?
   - Who all will see the reports?
   - In what format the reports will be seen by the concerned persons?

   The team leader can provide the team members standardised sample formats for developing weekly reports (The sample format is given in Chapter 16 'Communicating Effectively'). This ensures that everybody is reporting using the same format.

(f) After the initial one-to-one interview with the team members, the team leader should help them prepare a report that can be sent to their immediate supervisor (the person who has assigned them to the project). The report should contain details about the individual team member's participation in the project, what contribution he or she will be required to make, and the timeline of responsibilities. This report might also reach to another, probably a more senior manager who routinely evaluates the performance of the individual assigned to the team. This effort builds commitment across the traditional functional boundary. It also provides necessary reason to the immediate supervisor of the team member to help him/her accomplish the project work more effectively without confusion and thus minimising the negative effect of chaos.

(g) The team leader can also meet each team member's immediate supervisor at this stage to build an understanding of what contributions will be required from the assignee to meet the project requirements. This interaction should be informal and direct, preferably in the supervisor's office to eliminate interdepartmental misconceptions about the individual team member's obligation to the project and to help eliminate the potential for outside interferences or adverse working conditions.

(h) The team leader should frequently meet team members individually in their respective work environments to continually develop an understanding of work and to create an opportunity for a professional relationship. During these interactions, the team leader can appreciate the individual's personal traits. The team leader's honest and open commitment to the individual team members can successfully break down hierarchical and organisational barriers and truly minimise the nervousness of the anxiety stage. This initiative goes a long way in enhancing the personal commitments of individual team members to the team goals.

The simple steps described above can help the team leader to effectively manage the anxiety stage of team development and get the team out of it as fast as possible, which is very necessary. The longer the team members dwell in this anxiety stage, the more confused they are likely to be. The more confused the team members are at the beginning of the project, the longer it will take them to develop as a team. It is the manner in which the anxiety stage is handled that lays down the foundation of team development, and it significantly influences the future outcome of the team.

(ii) ***Formative Stage:*** This is a stage where the detailed planning of the project or the working of a team begins. It is perhaps the most difficult of all the stages because clarification of the project's goals and objectives and each team member's role and responsibility actually creates a gap between the reality and the initial expectations of the team members. Not everything turns out the way the team members thought it would be. Dissatisfaction is an essential part of the formative stage of team development. The team members may be heard saying, 'This is not what I thought it would be like', or, 'What have we gotten ourselves into now?'

The team members can get confused. Some teams never recover from this stage and this leads to a situation where the group can get back into the anxiety stage. The team members might start blaming either the project leader or the situation, environment or even the organisation as they feel the need to find someone to be blamed for their situation. But what they actually need is someone to provide them continued direction and encouragement. Some team members will require more guidance than others. This stage is necessary in order to eventually bring a sense of common outcome to the team members.

Managing this stage is most critical. In this stage, the team leader needs to clarify to the individual team members the importance of the project goals and the role of their contribution to the success of the project. The team leader can handle this stage by following the steps described:

(a) The team leader needs to actually work in concert with each team member to develop details for the execution of the assigned task or the project, like criteria pertaining to schedule, budget, standards and other deliverables. The team leader must personally invest into the further development of the project and the team at this stage. If he/she is not actively involved in the project or the project team's development, then the project may fail to achieve the desired end-results amicably and there may be arduous conflicts between the team members. This situation is similar to a sports team playing a championship match without a coach.

(b) Praising the team members for their good performance is the most effective means to motivate them at this stage. But, some may not need the praise as often as others.

(c) The team leader would put into practice the communication and reporting methods that have already been established with the team in the earlier anxiety stage. Keeping every stakeholder (everyone connected with the project and the team members) informed, these formats promote progress and understanding.

(d) The team leader can develop his/her own weekly reports by compiling and summarising the team's effort for the week, forecasting planned efforts for next week, and noting any concerns that remain unresolved. The team leader's report can be distributed to all functional management levels involved or having a vested interest in the project including customers or end-users and the team members. This effort passes information to the desired quarters and forms an understanding of the latest status of the project.

There is no doubt that the formative stage is most complicated stage to manage, but there is success after this stage.

(iii) ***Functional Stage:*** A properly managed group begins to emerge as a team in the functional stage. As the reality and the expectations come more into line with each other and as the team members develop their ability to work together and a sense of cohesion, the functional stage begins. It is a delicate stage and teams often want to avoid conflict during the functional stage.

The team leader needs to continue to provide encouragement to push the group to take risks and to work through disagreements rather than avoiding them. While doing this, the role of the team leader is to maintain the focus and clarity for the team's effort. He/she needs to propose challenges to the team by asking leading questions like, 'Should we do this or that?' 'If so, why?' The team, without this helpful nudge, may not be able to address the potential problems. They may also not be willing to explore the best choice and delivery options.

The team leader needs to take following actions to be effective in the functional stage.

(a) He/she should meet routinely all team members individually to guide them in fulfilling their obligations to the project.

(b) The team leader must continually monitor the progress and adjust his/her plans to mitigate the variations from the original schedule.

(c) He/she should reinforce understanding, instill motivation and whenever necessary solve the problems of the team members.

(d) The team leader must ensure that each team member's effort is focused effectively on the project's desired end-results. He/she must spare time to understand each team member's point of view.

(e) The team leader should be appreciative towards the contributions of the team members and be patient with regard to their participation. The guidance to individual team members needs to be provided with 'what if' type of questions which help the team members to create their own understanding.

(f) The team leader at this stage need not dictate but discuss with each team member the important contributions to be made by him/her by creating action item lists. An action item list is a document that systematically depicts the first-stage contribution of the team members to the project. It is an excellent way to record and track activities having a significant or special importance to the project to reinforce the important efforts related with the project. An action item list includes key objectives, milestones and any other significant activity related to the completion of the project.

An action item list acts as an efficient tool for monitoring and adjusting activities involving a group contribution to the same effort. By reviewing the weekly report with the action item list, the team leader can keep the team focused and motivated. The successful completion of one action item list generates another action item list and takes the project forward in a very controlled manner to its conclusive end.

(g) The team leader should try to win over the trust and respect of the team members so that they must believe that the team leader is there to help them unconditionally when needed.

(h) The team leader must be effective in working through differences that will become evident between team members at this stage. He/she should praise the team members after the resolution of the conflict and should tell them that conflict is not all that bad, rather it helps eliminate the ambiguous that often affects progress.

(i) The team leader needs to keep the team's emotional level high. No room should be given to the thinking that he/she is dissatisfied with them. The team members at this stage want to feel that others should recognise that they want to work rather than made to a feel that they have to work.

(j) The team leader must use the established communication and reporting techniques effectively. Apart from communicating the essential information to everyone connected with the project, accomplishments of the team members must be adequately praised. Praise not only rewards the individual team member, but it also helps the team leader in promoting motivation and team spirit.

It is important to note that symptoms of chaos may reappear at the functional stage in reaction to difficulties or changes. To manage the change effectively, the leader needs to reinforce the project mission and individual member's contribution in achieving it.

In most short projects or assignments, team development does not go beyond the functional stage because the project duration is too short. But, the bigger projects enter the next stage, i.e. the productive stage.

(iv) ***Productive Stage:*** Eventually, a well-managed group can become a high performing team and move into the stage of productivity. In this stage, the team provides its own direction and encouragement, deals constructively with conflicts, and acts responsibly to complete its assignments.

A productive team is a trusting team that fairly and openly admits mistakes and commits to corrective measures. At this stage the team can function on its own with very limited supervision. In the productive stage, the team leader's role includes the following actions.

(a) The team leader should take on a more supportive role, enquiring about the needs of the project team that can help them complete their work effectively. He/she regularly monitors the situation and adjusts accordingly with the needs of the team. The team leader acts more as a facilitator to enable the team meet the project objectives and reach the final goal.

(b) The team leader needs to confront the negatives quickly and assertively. He/she should give an ear to rumours, and communicate the cause and effects of adverse circumstances that may affect the team.

(c) Whenever possible, the team leader should seek from the team members suggestions for corrective measures. Even when the team leader thinks he/she is already aware of what needs to be done, the situation or concern should still be brought to the attention of the team members; perhaps they may have a better solution. This will give the team a sense of ownership to the solution, reinforcing their productive commitments.

(d) The team leader should make an effort to be accessible to discuss any situation a team member may feel to report. Even the simplest issues that are reported should not be missed.

(e) At this stage, reward or praise should be directed to the team as a whole. If an individual is praised for an achievement that the team accomplished together, it can demoralise the team. The team leader must praise the individual and the team together.

(f) The team leader should not simply wait for weekly reports. He/she needs to get out there, talk to the team, and find out first-hand how things are going. The productive teams accomplish work fast, sometimes too fast and things can inadvertently go offtrack. This can demoralise a team. The team leader needs to lead the team by being positive, consistent and informative and mind the direction in which the team is heading.

The productive teams are usually effective in managing themselves by working through the difficulties without the assistance of the team leader. Still, when everything appears to be working well, it doesn't take much to impair results. The team leader must develop an instinct to anticipate when, and how a change will affect his/her team.

The successful teams working on long and extended projects have one more stage of the team-building process to go through after the productive stage. It is the creative stage.

(v) ***Creative Stage (Self-Managed Teams):*** The optimum level of participation and effective achievement of the end-result of a project is achieved in the creative stage. Here, the team practically runs by itself. The team members continuously work and stretch themselves to create agreement about what has to be achieved and how it is to be accomplished. The team is now focused, motivated and satisfied with achieving optimal results from their effort. In this stage, it is the individual team member's sense of accomplishment that continually motivates him/her.

The team leader should now stands at the foreground, monitoring progress and initiating adjustments whenever necessary. In this stage, the team leader actually needs to utilise his or her full potential with respect to management style, wisdom and individual creativity as it is a delicate and fragile stage. If not handled effectively, the team could revert from the creative stage to a chaotic state without too much warning. Therefore, the team leader needs to recognise and quickly manage the elements that can lead to chaos, like change, conflict and dissatisfaction.

To be an effective team leader of the creative stage, one must continually serve the creative needs of the team. In fact, instead of the team working for the leader, the team leader is now actually working for the team. It is akin to feed the fire with fuel at regular intervals, to keep it going. The creative teams need creative guidance, appreciation and the challenge from the team leader, team members and others connected with the project.

The creative stage is very similar to the productive stage except for one distinct difference— that is, in the creative stage people individually approach towards work, work satisfaction and self motivation with little supervision. Often it is the team member that asks the following questions to the team leader:

- What do we do now?
- When do you want it?
- I need more information – can I research it for myself?

The team leader ensures that the individuals outside the project team understand the contributions of the team members and they demonstrate appropriate appreciation and rewards for the team members' efforts. The leader has to be creative to call others' attention to team effort and accomplishment. The team members will approach challenges more creatively when they know that everyone connected with their effort is recognised and appreciated.

Proper analysis and implementation of different strategies at different stages can transform a group of people into a high-performing team. But, at all the stages, the key questions that need the team leaders' attention are:

- What does the team need from the team leader at a particular stage, to keep moving through other stages of team-building?
- Does the team need direction and guidance at a particular stage or not?
- Does the team need support and encouragement at a particular stage or not?
- How much of guidance, support and encouragement does each team member require?

How to Motivate Team Members to Perform to their Potential

The team leader's major concern is how to build commitment and excitement in the team members for the project. A bouquet of tools, described below, can be employed to stimulate motivation of the team members.

- ***Building Personal Power:*** Effective team leaders understand that there is a limit to the amount of position power that one can use in a cross-functional team for executing the project because most of the team members do not directly report to the team leader for their major responsibility at work. Therefore, the leaders need to create personal power on the basis of their personal skills and abilities.

  The team leader strengthens his/her personal power by identifying himself/herself with the team members and believing that going along with their genuine requests will facilitate a favourable interpersonal relationship and foster mutual respect. To be perceived as an expert, the team leader needs to create a perception that he/she has a special knowledge with respect to the project at hand. An attempt can be made to develop the relationship power by developing a caring work relationship with other team members. In the process of empowering others, the team leader is also empowered.

- ***Voluntarily Signing up for the Project:*** The team leader can request the functional or departmental heads to preferably nominate those individuals who actually want to join the project team voluntarily.
- ***Co-creating Objectives for the Team:*** By reviewing the objectives of the team and making contribution through suggestions, the team members effectively sign up for the project. By signing up for the project, all team members actually agree to do whatever is necessary to make the project succeed. This could mean forsaking family, friends and hobbies, if necessary, until the project is completed.

  Through signing up of the team members, the team leader has their hearts and minds. The team members now are there for 'something to do' than being just 'to do something.' Through this step, the team members feel that they are participating in an exciting venture, guided by a shared vision of how their efforts will bring success.
- ***Inspiring a Shared Vision and Creating Challenging Possibilities:*** The team leader can show to all team members how their own aspirations are aligned with those of the project. He can build their commitment by showing them the bigger picture and by promoting the meaningfulness of their efforts.
- ***Leading by Example:*** The commitment and energy of the team leader for the project will often create similar sentiment in the team members.
- ***Displaying Posters of Project Goal and Objectives:*** The team leader can create posters of the project goal and objectives and hang them on the wall. These posters develop commitment to success and timely completion. They constantly remind each team member and others what the team is trying to accomplish.
- ***Signing a Pledge:*** The team leader can even get everyone in his/her team to sign a pledge to achieve success and timely completion of their contribution to the project objectives. The signed pledges can be displayed prominently on the walls throughout company offices. The visual aspect of each commitment serves as a constant reminder to the concerned persons, supporting departments and end-users (the top management) that success is paramount and the team is very much serious to achieve it.

By effectively undertaking the above steps, the team leader can create an empowered and committed team that is fully aligned with the project goal. He/she is also able to motivate the team members in their project effort and establish his/her personal power over the team members.

How to Manage Team Conflict

There can be varying types of potential conflicts between the team member themselves and with the team leader during different stages of the evolution of a team. It is very important for the team leader to develop his/her skills to handle these conflicts. But, to do that he/she should have an understanding of the potential reasons of conflicts in a team setting.

Reasons behind Team Conflicts

Some of the reasons behind team conflicts are described below.

(i) ***Project Priorities and Technical Opinions:*** The team members may have different viewpoints about the proper sequence of activities and tasks. There may be entirely different and competing opinions with respect to the 'best way' reach the required performance for accomplishing the task.

(ii) ***Staffing and Resource Allocations:*** Conflicts may arise over allocation of assignments within the project to different team members. One team member can complain that he/she always gets 'tough or difficult work' while the others get glamorous assignments. So, there can be conflicting demands by two or members for a certain responsibility to be assigned to them. This leads to both interpersonal strife and personal stress.

(iii) ***Objectives and Milestones:*** A constant source of tension is 'How long an activity is going to take?' This difficulty arises because the teams have to estimate the timelines of accomplishing various tasks related to the project in the future, and different team members have different perspectives of the future as the future can seldom be predicted with certainty.

Strategies for Handling Team Conflict

Team leaders can handle the team-related conflicts by adopting the following tools and strategies.

(i) ***Listening:*** By listening out the entire concern before responding, the team leader can project an image of a person who is trying best to understand the viewpoint of others. Even if the team leader knows that the point made by the other person is not valid, he/she should still listen to it completely. Before responding, the team leader can candidly thank the member for bringing to the consideration the stated concern.

The team members usually have a strong feeling that they know more than the team leader in their functional domain. Therefore, the team leader needs to encourage the team members to contribute their expertise to the maximum as this is likely to increase their level of motivation and commitment. But, at the same time the team leader should request the team members to support their viewpoints with sound arguments for his/her understanding and clarity.

(ii) ***Highlighting the Importance of Project Goal:*** Keeping the goal clearly in mind goes a long way towards minimising the petty concerns and conflicts. By explaining the importance of the project goal for the growth and development of the organisation and elucidating the criticality of the timely completion of the project, the team leader can minimise the issues and concerns of the team members.

(iii) ***Sound Business Intelligence:*** To minimise potential conflicts, intensive planning on the part of the team leader prior to meeting the team members is essential. By developing the objectives and milestones on the basis of sound business intelligence and discussion with people having a similar experience, the team leader can develop apt objectives and milestones. He/she should not depend on his/her hunches and assumptions to reach these decisions. Thus, whenever the team members would present a counter argument with respect to any issue the team leader can justify his/her position with documentary evidence. This would present the team leader as an expert before the team members.

(iv) ***Open-mindedness:*** By demonstrating willingness and gladness to incorporate those views of the team members which add value to the planning and execution of the project, the team leader can make the members support him/her and minimise their conflicting posture.

(v) ***Involvement:*** The team leader can suggest to the same member, who finds a fault in working to present a solution. This would involve the team member in co-creating the solution for the suggested problem.

(vi) ***Focus:*** By focusing on issues, goals and objectives, not personalities, the team leader can make the discussions objective. He/she can create an environment where ideas and viewpoints are competing with one another and not the people who are presenting them.

(vii) ***Building Agreement and Consensus on the basis of Fairness and Transparency:*** The team leader needs to satisfy the members who raise an objection, not just rationally but also emotionally. Because he/she needs to create a context that supports the execution of the project by winning over friends, not the other way round. The team leader can empathetically explain to the members on what sound basis different roles and responsibilities have been assigned to different team members, and how this allocation has been made without any prejudice.

MANAGING THE TERMINATION OF THE PROJECT AND DEMISE OF TEAM

As the team nears the completion of the project, there is a termination stage to be managed and handled. Most team leaders do not take this stage into consideration. As the project's end comes into sight, some team members may slow down their efforts feeling that the project is almost over. Often, a gentle nudging and a congenial reminder about the importance of meeting the scheduled end-date will be needed near the completion of the project.

Finally, as the project nears completion, some team members will experience sadness and remorse about the team's impending demise; they require encouragement and emotional understanding. The termination of the project must be managed as a human emotional need. There is likely to be a reluctance to change the sense of belongingness that each team member works through.

The team leader needs to end the project considerately. In the last meeting with the team, the efforts that were completed successfully should be praised and attention should also be drawn to the lessons learned from any shortcomings experienced, including those of the team leader. The analysis of shortcomings should ideally begin by highlighting the shortcomings of the team leader so that other team members feel encouraged to discuss their limitations and weaknesses encountered during their work in the team. These learnings could be of valuable use for professional development of members and also as feedback for improving the team building effort of the team leader. They need to be recorded for the benefit of execution of a similar task in the future.

Closing Projects

Teams are usually established to plan and implement a special task or assignment as a project. So, once a plan has been implemented by a team, its leader should be conversant about how the project has to be closed. It must be remembered that the broad success of a project can be lost in a volume of tiny adjustments that might be called for by the assigning authority. This can leave highly effective people unhappy and dissatisfied following a success.

After the completion of the project, it is important to get an approval from the assigning authority (the customer or the top management) that the project is completed successfully. Besides, an overall evaluation of the project must also be carried out. The evaluation should concentrate on the following points.

- The quality and consistency of delivery achieved by the team—whether it was in accordance with the requirements of the assigning authority or not.
- The volume of the work that has been achieved by the team.
- The length of time it took to achieve the project— whether it was more or less than what was initially scheduled and agreed to in the beginning among the team members or with the assigning authority. If there is deviation, then what could be the reason behind that?
- The real cost of carrying out the project in comparison to what was planned for at the start of the project.

These points should be considered and evaluated in the light of internal and external influences on the execution of the project. By monitoring these points, the team and the organisation might be able to learn a number of lessons which can be fed back into the future planning.

In situations where the plan has been successfully executed, this is a good time to formally close the project with a ceremony— whether it is a meal or a party, or a formal presentation of awards/rewards. Not only does this formally close the project in the minds of the team members, it also allows them to feel a part of overall success.

Points to Remember

1. According to Katzenbach and Smith (1995), a team comprises a small number of people with complementary skills who are committed to a common purpose, a set of performance goals and an approach for which they hold themselves mutually accountable.
2. Effective teams display the following characteristics: commitment for common purpose, collective and challenging specific goals, support of management, flexibility, adherence to team values, trust, proactivity, effective decision-making, effective communication and proper records.
3. Teams can be classified as: Product Development Team, Departmental Problem-solving Team, Self-managing Team, Cross-functional Team and Virtual Team.
4. The nature of composition of a team or the competency level of its members significantly affects the output of the team members.
5. The people assigned to work together as a team do not automatically become a team the day the project begins. It takes time and energy to convert a group of people into an effective team. Team-building is a collaborative term for different methods and a variety of practices that are employed for developing an effective team.
6. Requirements for effective team building are: team leader should possess the traits and qualities of an effective leader, effective communication, clarification of roles and responsibilities, objective decision-making, focus, cooperation, intuitive thinking and understanding of human behaviour.

7. To manage teams successfully, the team leader must first understand his/her own behaviour and then of the other members of the team. Better is the understanding of human factor of a team leader, better he/she will be in managing people working as a team.
8. The team leader can learn the various facets of human behaviour that affect team building by understanding the self; others and knowing that we all are different; team members will behave the way they are perceived; every behaviour has some reason behind it; and accepting that all people are motivated to do something.
9. Some of the key team-building interventions are: building teammates, team development activities, establishing vision, involvement, group bonding sessions and socialisation activities.
10. The five different stages through which the group of individuals pass in becoming a team are: Anxiety Stage, Formative Stage, Functional Stage, Productive Stage and Creative Stage.
11. Team leaders can build commitment and excitement in the team members for the project by: building personal power, voluntarily signing up of members for the project, co-creating objectives for the team, inspiring a shared vision and creating challenging possibilities, leading by example, displaying posters of project goal and objectives, and signing a pledge.
12. Some of the reasons behind team conflict are: project priorities and technical opinions, staffing and resource allocations, and objectives and milestones.
13. Team leaders can handle the team-related conflicts by: listening, highlighting the importance of the project goal, sound business intelligence, open-mindedness, involvement, focus, and building agreement and consensus on the basis of fairness and transparency.
14. It is important to properly manage the termination of the project and handle the demise of the team with encouragement and emotional understanding. In the last meeting with the team, the efforts that were completed successfully should be praised and attention should also be drawn to the lessons learned from any shortcomings experienced, including those of the team leader.

Review/Discussion Questions

1. Define team. What are advantages and disadvantages of teams?
2. What are different types of team?
3. What is the difference between a group and a team?
4. How does the composition of team affect its productivity?
5. What is the requirement and importance of forming a team?
6. What elements make a team effective?
7. Define team-building. What are the requirements for effective team-building?
8. Explain different team-building interventions.
9. Outline and explain different stages of team-building. How can a team-leader effectively manage them?
10. How can the team members be motivated to perform according to their potential?
11. What are the reasons that cause conflict among team members? How can one manage such conflicts?
12. How can one manage the termination of the project and the demise of a team?

Field Exercises/Class Exercises/Group Projects

1. Students should remember one of the great teams (for any purpose) that they have been part of in the past. They should list down the reasons that made it a great team.
2. Students should be asked to rate themselves on a ten-point scale for the key requirements of team-building and then try to analyse their competency with respect to building a great team.
3. Students should be asked to narrate their experiences with respect to motivating the team members, resolving conflicts among the team members or their role as a team leader in leading the team to a turnaround situation.

On the Internet

1. Visit http://www.businessballs.com/teambuildinggames.htm to undertake some practical exercises with respect to team building.
2. Visit http://www.mindtools.com/pages/article/newTMM_52.htm to learn about some team-building games and then execute them in the classroom session.
3. Log on to http://www.workshopexercises.com/Leadership_continued.htm#L13 to identify the appropriate approach to coach a team member.

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Case Study

Guru Greg and Indian Cricket Team

Phase I

In the year 2000, Ganguly stood up as a leader and accepted to become the captain of the Indian cricket team when the team was new. At that time, no one was ready to become the captain because the team was under the pressure of match-fixing allegations. It was a difficult time, and the wrong man in the captain's position might have ruined the Indian cricket to an extent that it might never have recovered.

Ganguly was the man who gave the power and confidence to the team, which was instrumental in Indian cricket team winning many series outside India like: reaching ICC Mini World Cup final, Natwest series, drawing Australia test series, first series wins in both tests and ODIs in Pakistan, a feat that had eluded India for over 50 years and took unfancied India to runner-up position in World Cup 2003.

Ganguly led India in a record 49 Tests, winning 21 including 12 outside India— all the three figures are records for Indian Test captains. He also led India to more Test wins (11) outside India between 2000 and 2005 than all Indian captains had done between 1980 and 2000. He led India to victory over Australia in the 2001 Border-Gavaskar trophy— a feat considered one of the greatest in the Indian cricket history.

Ganguly was aggressive by nature and that made team more aggressive and strong. He was the first-ever Indian captain who created a confidence in the team to win overseas. It was under his captaincy that India started winning matches outside India, and he emerged as India's most successful ODI and Test captain. Ganguly was fondly called Maharaj by his teammates. He has to his credit the feat of having nurtured a number of young players, like Virender Sehwag, Harbhajan Singh, Yuvraj Singh, M.S. Dhoni, Zaheer Khan and Mohd. Kaif.

The core of Ganguly's philosophy as captain was not to allow the youngsters to flounder, and this led to a self-respect movement in the team. He worked wonders for his juniors and injected his self-confidence in the team, which was missing earlier. Ganguly's youngsters, knowing they had his unstinted support, rallied behind him. He stood as a bulwark against the slings and arrows of selectors' fancies. Confidence was the name of the game— Ganguly had enough of it himself to distribute it among teammates as he was performing well as batsman and captain. As Ganguly built his team, he injected it with a large dose of self-belief.

In 2005, India was at the peak of confidence and the team was high on team spirit and very loyal to the captain. The dream of the team was to aim for the ultimate, World Cup 2007. The height of glory, attained by the Indian cricket team under coach John Wright, led to a situation where Team India cricketers clearly stated their preference for a foreigner coach, not an Indian. Similar trend of preference for foreign coaches has also been observed in other cricket teams from South Asian countries, like Sri Lanka, Pakistan and Bangladesh.

After due diligence, comprehensive selection process and considering the preference of the team and the captain, legendary Greg Chappell was inducted as coach of the Indian cricket team in May 2005 for a two-year term until World Cup 2007 at a hefty annual salary of about 175,000 USD.

Chappell was a tremendous player of pace bowling and is regarded as one of the greatest batsmen ever to play for Australia. He was an exceptional all-round player as he also bowled medium pace. At his retirement, he held the world record for the most catches in Test cricket. Chappell became the first Test batsman in history to score centuries in both his first and last Test innings. Of all the Test batsmen who have retired since 1974 and scored more than 2,000 test runs, Chappell's test batting average of 53.86 is the highest. In 2002, he was inducted into the prestigious Australian Cricket Hall of Fame.

Phase II

During Chappell's tenure, India had a record-breaking run of winning 17 ODIs while chasing and a Test series win in the West Indies. Few young players, like S Sreesanth and Dinesh Karthik, came into the national side and won acclaim for their performance. But, there were a series of controversies and personality clashes too, which arose from Chappell's hardline and no-nonsense attitude.

Chappell's joining the team coincided with a fall in the batting performance of its most successful captain ever. Chappell advised Ganguly to give up captaincy. He also had serious misgivings about India's fielding, running between the wicket, fitness and the attitude of the seniors towards fielding. But things unravelled pretty quickly because of the wide publicity given to Chappell's views on the captain in an email and different text messages to carefully chosen journalists. It led to a divisive influence on the team.

Chappell's tenure began with a bitter and public feud with Sourav Ganguly, captain of the Indian cricket team at that time. Chappell made such serious allegations against Ganguly that the Press Trust of India called these allegations "extraordinary", and also said that nowhere in the world had a coach made written complaints against the captain of a team before!

Chappell made the following six observations against Ganguly in September 2005 in an e-mail that appeared in a leading Bengali daily, *Ananda Bazar Patrika*: 1. Ganguly is so interested in keeping his captaincy that he has always been creating differences among team members. 2. He has no physical or mental fitness to continue as captain. 3. His leadership commands almost no faith or respect from team members. 4. He mostly complains of imaginary injuries. 5. Ganguly's attitude is not in the least ideal for India to strive for the 2007 World Cup or a better cricketing future. 6. He does not follow the fitness regime prescribed to him.

Chappell also alleged that Ganguly affected the team morale by making last-minute changes in his team. And, being a cowardly captain, he was affecting the team. Chappell's accusations were not a normal practice of a coach to accuse his own captain in the media. The BCCI brokered a peace between Ganguly and Chappell, but Ganguly was sacked within four months of Chappell's joining on account of his poor form.

This was followed by a war of words in the media between Chappell and senior Indian players, like Virender Sehwag, Harbhajan Singh and Zaheer Khan who came out to criticise his methods. Sehwag commented that he was not comfortable with the Australian as he had betrayed the trust of the players by leaking information to the media and selectors. Zaheer reported that a significant part of Chappell's tenure was 'difficult time'. Harbhajan Singh came out in support of Ganguly, and accused Chappell of following 'double standards'.

Ganguly was removed from the team, and Chappell was there to stay along with the spoilt relations with some of the team members. He came under intense criticism for tinkering with the batting lineup and unorthodox cricket coaching methods. For instance, he decided to change the batting order of highly successful opening batsman Sachin Tendulkar and sent him to bat in the middle order, which led to his poor performance. Consequently, India's success in one-day matches also diminished. This also negatively affected the performance of the other opener, Virender Sehwag.

Chappell was severely criticised for the manner in which he handled his players through the media. He often leaked information to his friends in the media and indirectly criticised a player through the press. He sent an SMS to an Indian journalist before World Cup 2007 that he was not satisfied with the selection of the team. He wanted more young players in the side than the older ones.

India's dismal performance in World Cup 2007 after losing from lowly ranked Bangladesh led to its early exit from the tournament. Ironically, winning this tournament was the very purpose for which Chappell was appointed as the coach of the team. With India's exit, Greg Chappell's controversial tenure as India's coach came to an end.

Sachin Tendulkar summed up the situation in an interview published in *The Times of India.* 'We do realise that we played badly and, as a team, we take full responsibility for that, but what hurt us most is if the coach has questioned our attitude.'

Within hours of that interview being published, Chappell announced on April 4, 2007 that he would not be seeking an extension of his contract for his post as Indian coach. At the same time, there were rumours in the media about the possibility of the sacking of Chappell by BCCI from the position of coach because of the team's poor form and his difficult relationship with many players.

In a sting operation, executed by a private television channel 'Headlines Today', the Indian cricket selectors were seen hurling intense criticism and crucifying former Indian coach Chappell along with senior players, blaming them for India's disastrous defeat in the World Cup campaign. According to the selectors, Chappell had a divide-and-rule policy which he used to create fractions in the team. Besides, senior players like Sachin Tendulkar and Saurav Ganguly were not supporting the captaincy of Rahul Dravid. These attitudes ultimately became the reason for India's ignominious defeat in the Cricket World Cup 2007.

Questions for Discussion and Analysis

1. South Asia has produced great players. Why is it that the teams from the Sub-continent prefer foreign coaches?
2. 'Great players make great coaches'. Do you agree or disagree with this statement? Why?
3. How the learnings from this case study can guide a team leader in corporate setting?
4. How the interplay of intentions and actions of a team leader does affect the team spirit and its performance?
5. To what extent Greg Chappell is responsible for the exit of the Indian cricket team from the Cricket World Cup 2007?

Chapter 13

Staffing

All organisations say that people are our greatest asset. Yet few practise what they preach, let alone truly believe it.

—Peter Drucker[1]

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- comprehend the elements of human resource planning
- explore the different nuances of recruitment, selection and employee separation
- understand induction, types of training, training methods and challenges in implementation of training programmes
- comprehend performance appraisal methods and employee retention strategies
- understand challenges and trends affecting the staffing function in the 21st century

INTRODUCTION

Staffing is a vital management function as it provides the necessary human resources for effective and efficient planning and execution of different tasks and roles for the accomplishment of the goals and objectives of an organisation.

The human resource function has acquired a new and crucial responsibility to strike a balance between the organisational and individual objectives. The principal mandate of the new philosophy of people management is to develop and execute policies, programmes and practices that align all human activity with corporate objectives. T.V. Rao[2], one of the pioneers in human resource management in India, articulates the importance of people management as, 'We must understand that corporations are not in the business of human resource development. They are in their own business. But, human resource development is an important tool to achieve corporate vision. Unfortunately, it is being used in a limited sense. Actually, human resources must become the business of everyone in the organisation.'

DEFINITION: STAFFING

Staffing is an activity that involves all actions which ensure filling and keeping filled the positions in an organisation structure (Weihrich, Cannice and Koontz[3], 2008). The primary focus of staffing is on acquiring and retaining right kind of people at the right positions in the organisation at the right time. It is one of the key factors for this service or knowledge-based economy, where people play a significant role in the success of a business organisation.

Once a journalist asked Henry Ford, the founder of Ford Motors, that how much educated he was? Ford replied that he was not educated enough, but he had eight people under him whom he could call and they would have the answers to all the complex questions of the world. Thus, it is very important for the owners of business organisations to put in the right people at the right positions to manage things in an optimum manner.

The number and type of employees that would be required in an organisation are determined on the basis of the present and projected organisation structure and overall enterprise plans and objectives. Therefore, the staffing function has to be integrated with the management system of the organisation. The requirements for human resources are compared with the available talent through the management inventory to determine the gaps or surpluses. Based on this analysis, external and internal sources are utilised for recruiting, selecting, training, appraising, promoting, retaining and career planning of manpower and planning the separation of excess manpower.

The staffing process requires the following actions to be taken by the management.

- Examining organisational objectives and plans for expansion.
- Identifying human resource requirements through human resource planning.
- Inventoring people that are available in the organisation.
- Determining the rate of employee turnover for different managerial positions.
- Recruiting, selecting and inducting new entrants, and training, developing, appraising, promoting and transferring existing employees to fill the gap between what is prevalent and what is required.
- Preparing compensation plans for retaining talent.
- Creating an environment which fosters effective and efficient discharge of responsibilities.
- Developing career planning for the existing employees.

The staffing function has gained increasing importance because of the emergence of acquiring and retaining talented human resources as a key competitive advantage for the organisation.

CONSTITUENTS OF STAFFING

Most good companies have almost the same basic HR processes, yet they are discrete because of the manner and seriousness with which they are practised and implemented. The over-arching function of staffing includes the following constituents that have been subsequently described in detail.

1. Human Resource Planning
2. Job Analysis (Job Description and Job Specification)
3. Recruitment
4. Selection
5. Induction
6. Training and Development
7. Performance Appraisal or Performance Management
8. Recognition and Reward
9. Promotion
10. Employee Retention
11. Organisational Exit: Separation

Human Resource Planning

Human resource planning is the process by which organisations ensure that they have the right number and type of people in the right place at the right time. It can be divided into the following two major steps.

1. ***Human Resource Inventory:*** HR planning begins with assessing the current availability of human resources. In spite of the fact that human resources are vital for the success of an organisation and are in short supply, it is unfortunate that the majority of organisations do not keep proper inventory of their human resources, particularly managers.

   The information for human resource inventory is obtained from employment forms filled out by employees which include detailed information about them. The availability of sophisticated databases enables proper storage and quick retrieval of this information for staffing-related decisions.

   Organisations develop detailed HR inventory charts which include a succession plan for every key position. Advantages of such an inventory chart are described below:

   - It gives an overview of the staffing situation and depicts the future supply line of human resources by indicating those promotable in a year or more.
   - Recruitment and training plans can be initiated in a timely manner to ensure future supply of human resources at the right time.
   - Prompt action in finding suitable slots for competent managers, who are ready for promotion, within the organisation reduces the possibility of their seeking employment outside the organisation.
   - The inventory chart facilitates transfers for strengthening weak spots and broadens experience.

2. ***Future Human Resource Requirement:*** The second part of human resource planning involves assessing the future human resource needs of the organisation by analysing its future plans and objectives.

The future human resource needs are determined on the basis of the organisation's mission, goals and strategies. The demand for employees is estimated on the basis of the organisation's products or services and total expected revenue. Managers can attempt to establish the number and mix of employees needed to reach the target revenue. In some cases, when particular skills are necessary but in short supply, the availability of appropriate human resources determines the potential revenues for an organisation.

On the basis of the information obtained from the two steps, discussed above, an organisation can develop a programme to meet its future human resource needs.

Job Analysis

Job analysis is a systematic process to determine the various aspects of human resource requirement for different positions in an organisation in quantitative and qualitative terms. It defines different jobs in detail (duties, role and task). For each job, it identifies the human resource requirements in terms of the type of work to be performed; minimal knowledge, skill, abilities, qualification, experience, mental ability and behavioural skills that are essential for a person to be employed for that job.

Information for job analysis can be gathered through the following measures.

(a) Directly observing individuals on the job
(b) Interviewing the employees individually or in a group
(c) Getting the employees to fill a structured questionnaire
(d) Utilising the services of job experts to identify a job's specific characteristics.
(d) Getting the employees to record their daily activities in a diary or notebook.

Job analysis can be further classified into the following two types of information.

1. ***Job Description:*** Job description is a written statement about how and why a job is done; and what is the role and responsibility of the position. It typically describes the job content, environment, and conditions of employment.
2. ***Job Specification:*** Job specification states the minimum and desirable qualifications that a person must possess to perform a given job successfully. It identifies the knowledge, skills, attitudes and behaviour that are needed to do the job effectively.

Managers develop or revise job descriptions and job specifications on the basis of job analysis. Information contained in job description and job specification serves as effective guidelines for managers in their recruitment- and selection-related decisions.

Recruitment

Once managers know their current human resource status and their future needs, they can begin to do something about any shortages. The information gathered through job analysis guides them in recruitment – that is, the process of locating, identifying, and attracting capable applicants. The primary objective of recruitment is to attract those applicants who are best qualified to fill the vacancies.

Recruitment involves a set of activities that need to be performed for attracting sufficient number of talented candidates for filling up certain positions in the organisation structure.

Potential job candidates can be attracted by using internal as well as external sources. Internal recruitment involves identifying potential candidates from within the organisation, whereas external recruitment involves attracting people from outside the organisation for vacant positions in the organisation. Different sources of external or internal recruitment have their own advantages and disadvantages. More than 1,000 resumes flood Infosys every day. So many people apply with Infosys because of the following reasons[4].

(a) ***Generous stock options:*** Infosys has 1,773 rupee millionaires and 213 dollar millionaires due to the stock option that is offered to its employees.

(b) ***Campus culture and facilities:*** A 5,000 sq. ft gymnasium, sauna, golf course and food court are available at the Infosys development centres that are designed on the patterns of campuses.

(c) ***Image:*** Infosys is one of the best employers in India (BT-Hewitt study January 2001). The company's attrition rates are the lowest in the industry. Even a good number of drivers and attendants that have made fortune because of the stock option have not left the organisation after becoming millionaires.

(e) ***Professional Development:*** It is perceived as a great learning place, where one can add to one's professional capability significantly.

(g) ***Growth:*** Narayana Murthy and his team ensured that every employee always saw Infosys as a global company.

Recruitment activity involves a variety of decisions; each decision has its own cost-benefit equation. These decisions are required to be made for the activities that include:

(a) Deciding the overall strategy to recruit the talent for different positions. It involves choosing the right approach to select the right kind of person. The possible approaches are:
- Hiring a headhunter or a placement consultant
- Releasing an advertisement in the newspaper
- Posting the job opportunity on the organisation's notice board for internal employees to apply for the job.
- Seeking references from existing employees

(b) Selecting the right media at which the recruitment information needs to be placed to attract the right number and type of candidates. A battery of media options are available for HR managers to attract the right talent for specific positions in their organisations. These include:
- Internet job site posting
- Newspaper advertisement
- Trade magazines
- Employment exchange
- Employee referrals

Each of the tools listed above has its own advantages and disadvantages, which are discussed in Table 13.1.

Table 13.1 Advantages and Disadvantages of Different Sources of Recruitment

Source	Advantage	Disadvantage
Advertising in the Media • Newspaper • Magazine/Journal • Internet	Reaches a large number of people and can encourage a large number of applicants to apply. Can bring in employees with fresh perspective. Job posting on the Net can be there for a long period and can be directed to interested candidates through automated e-mail	Sometimes generates very large number of applicants, which can create a problem of sorting and screening Generates many unqualified candidates Can be a costly proposition Difficult to be employed for senior positions of the organisation. Can de-motivate internal employees.
Internal advertising	Informing employees of vacancies internally for promotion or transfer from within the organisation in a transparent manner. Acts as a source of motivation for employees. Cost-effective.	May not provide employees with fresh perspective to create diversity and bring in change
Employee referrals	Can generate good candidates because the current employee knows the organisation as well as the person being recommended Reference check is inbuilt into it Rewards internal employees for selection of candidates	May not increase the diversity and mix of employees
Company website	Cost-effective Wide distribution; can be targeted to specific groups	Generates many unqualified candidates
Campus recruitment	Freshers can be moulded according to the organisation culture Candidates are equipped with latest knowledge A large centralised body of candidates	Expectation for salary is quite high Generally freshers are available as candidates Limited to entry-level positions
Professional recruiting organisations Executive search organisations/ headhunters	Good knowledge of industry challenges and requirements Makes the candidates available at short notice Organisations do not have to do too much effort in advertising, screening and short-listing, etc. Good for senior positions that organisations don't want to advertise.	Can be costly as huge cost might be involved in terms of fixed fee component that has to be paid for search and other expenses even if no candidate is selected. Little commitment to specific organisation

Web-based recruitment is gaining increasing popularity among organisations as well as applicants, but it can generate a large number of unworthy candidates and increase the overall recruitment cost and time for a company.

Most of the studies have found that employee referrals generally produce the best candidates. Applicants referred by current employees are pre-screened by the employees as they feel that their reputation is at stake with a referral. Since the employees know both the job and the person being recommended, they tend to refer those applicants who are likely to be best fits for the given job.

(c) Deciding upon the size and nature of the advertisement or posting to be made. Different sizes and types of job posting have different costs and corresponding benefits. The manager has to decide how much is the optimum expense for attracting a significant number of talented applicants for a position.

(d) Drafting of the advertisement or message to inform the prospective applicants.

(e) Interacting and negotiating with advertising agencies to get the best possible price for job postings and making of necessary payments.

(f) Collecting and organising the responses of applicants.

(g) Developing a list and/or a tabular presentation of the applicants' profiles.

Recruitment Challenges Recruitment in the present-day business scenario is no longer a short-term vacancy-filling measure or an annual ritual of campus recruitment. Rather it has to be woven into the strategic planning of an organisation. The HR department must translate corporate strategies into a manpower plan and accordingly develop a long-term hiring plan. Given below are the challenges faced by organisations while performing the recruitment function. These challenges have been identified by the BT-MBL-RCG[5] on the basis of the findings of the Focus Group on human resource management.

- Attract candidates with multidimensional experiences and skills, who can succeed a business environment which is changing at an accelerating pace.
- Locate people whose personalities fit the company's values and philosophy.
- Induct outsiders with fresh perspective to lead the company in a new direction or manage it with a new approach or philosophy.
- Search for talent globally, not just within the country, to bring in the global perspective.
- Design a comprehensive compensation package that competes with those of the rivals on quality as well as quantum.
- Anticipate and find people for positions that do not exist yet, but that are likely to come into existence in the future.
- Develop a culture that attracts high performing people for job positions in the company.
- Seek out unconventional talent sources which can provide talented candidates without competing too much with others because too much competition raises the overall cost of the organisation in hiring the talent.

Selection

Once the recruiting process has developed a pool of candidates, the next step in the staffing process is to select the best qualified candidate for the job. This step is the process of selection in which all applicants are screened to ensure that the most appropriate candidates are selected.

Selection is a process for choosing the right or the best candidate who meets the requirements of a particular position from all applicants for that position. In essence, it is a match-making endeavour to develop a right fit between the requirements of the job and the personality of the applicant. If more than one candidate appears to be appropriate for a single position, then the selection process selects the candidate that appears to be more suitable.

Therefore, selection involves predicting which applicants will be successful and perform in accordance with the criteria used by the organisation to evaluate employees. There are two approaches to selection for filling the organisational positions. These approaches are described below.

(a) ***Selection approach:*** In the selection approach, applicants with requisite skills, qualification and experience are invited to fill a vacant position in the organisation.

(b) ***Placement approach:*** In the placement approach, the strength and weakness of a candidate is evaluated, and a suitable position is found or even designed for the candidate.

Selection Process The specific steps in the selection process may vary according to the nature and size of the organisation; vacant position, time and resources available for selection; the philosophy and approach of the recruiter, etc. But, a typical selection process consists of the following steps.

1. ***Establishing selection criteria:*** The management needs to lay down the criteria on the basis of which it intends to select the candidate for a particular position. These criteria should be ideally developed on the basis of the Key Performance Indicators (KPI) for that position.
2. ***Preliminary screening:*** This step is undertaken not to select but reject those candidates who do not fulfil the basic criteria or eligibility. It is also performed to reduce the number of candidates that would be finally invited for the selection process.
3. ***Filling up application form:*** The candidates who are shortlisted after the preliminary screening are invited for the selection process. At the outset, they need to fill an application blank, which provides the selection committee with the required information about the candidate, like education, experience, employment history, achievement, etc. It indirectly reflects the candidate's command over the language as well as his/her willingness and ability to follow the instructions.
4. ***Preliminary interview:*** A preliminary interview can be conducted by competent but relatively lower-level managers to further screen out the obviously unqualified from the shortlisted applicants. This is done to save the time of senior managers who would prefer to meet the qualified candidates.
5. ***Selection tests:*** The candidates who qualify the preliminary interview might be required to undertake different types of selection test. These tests are performed to decipher their individual characteristics, personality, aptitude, ability to learn and master the concepts and skills, achievement orientation, motivation, etc.
6. ***Comprehensive interview:*** This step of the selection process provides an opportunity to have first-hand verification of the information provided by the tests and mentioned in the application blank. It provides additional information about the applicant's attitude, aptitude, interests, aspirations, and expectations. It also offers an opportunity to share information about the company, the job, and its environmental condition. This two-way sharing of information between the company and the candidate is mutually beneficial as it can lead to determination of the personality-job fit, which is good for both the parties in the long run.

7. ***Reference check:*** Applicants are normally asked to supply the contact details of individuals who are not related to them in the application blank. These references can be contacted to verify the credentials provided by the candidate, if required.
8. ***Physical examination or medical test:*** Some organisations might require their prospective employees to take a physical examination or a medical test from the doctor empanelled by the organisation. This is done to select physically capable candidates and prevent insurance claims for illness or injuries that occurred prior to employment by the company. In some cases, the candidates may just be required to furnish a certificate from a competent authority about their medical fitness. These tests can detect communicable diseases and also verify whether the person can perform the desired work or not.
9. ***Final selection (or rejection):*** This is the final stage at which the job offer is made to the top ranking applicants by the management. The selected candidate is required to furnish his/her consent in writing, after which the joining formalities are initiated and a complete appointment letter is given to the candidate. The acceptance of the appointment letter transforms a candidate into an employee of the organisation.

Practices for Employee-Job Fit Determination Organisations can adopt the following step-by-step approach to select the most appropriate candidate for a particular position.

(a) The human resource department should draw up the profile of the ideal employee for a position after performing job description and job specification exercise. It must also take into account the corporate values so that people with similar or compatible values are selected for a given position.

(b) Structure the selection process in such a way that it helps an organisation test for the candidates for the personality-job fit.

(c) Lay stress on subjective impressions when analysing a candidate for his/her fit for a job or position. Arthur Andersen conducted a global study which generated nine behavioural dimensions on which a prospective candidate should be ranked for a comprehensive analysis of his/her personality[6]. These behavioural dimensions are:

- Initiative-taking ability
- Sense of ownership of group/organisational goals
- Degree of self-control
- Extent of adaptability
- Goal-orientation
- Influencing skills
- Attention to detail
- Ability to direct performance achievement
- Resource management

Nucor Corp., USA, lays emphasis on selecting people with right mindset even though they might be lacking in technical skills. Nucor conducts written tests and in-depth interviews to evaluate whether a prospective employee fits into the Nucor culture. It utilises the services of industrial psychologists to screen prospective candidates and evaluate their mindsets. James Coblin, Nucor

General Manager (personnel services) (1995), commenting on the company's recruitment philosophy, said, 'We can teach them to make steel[7].'

(d) Explain to the candidate in clear terms the details of the fit that the organisation is looking for.

(e) Adapt the company's fit to the changes in the internal and external environments over a period of time.

Selection Techniques A good number of techniques are available with the managers to test and analyse the applicants to select the most appropriate candidate from them for a particular position. Some of these techniques, like interview, are highly subjective while others are quite objective. Organisations should adopt a combination of selection techniques in addition to the conventional interview for assessing the psychological traits of the candidates. Psychographic testing techniques such as Thomas Profiling, Myers-Brigg Type Indicator and the PA Reference Inventory that draw up the complete psychological and behavioural characteristics of an individual need to employed by the organisation for finding an ideal personality-job fit for a given position.

Over the years, psychologists have developed a good number of techniques to ensure that the right person is selected for the right job. From these techniques, the manager has to choose the right and most appropriate tool for the selection of employees. Some of the selection techniques are listed in Table 13.2.

Table 13.2 Select Selection Techniques

S. No.	Selection Technique	Characteristics and Benefits
1.	Weighted Application Blank (WAB)	To bring out the candidate's response to specific questions to develop his/her personality profile.
2.	Biographical Information Blank (BIB)	To assess the candidate's background and experiences in the past
3.	Thematic Appreciation Test (TAT)	To gauge the need for achievement and power in the candidate
4.	Miner Sentence Completion Scale (MSCS)	To measure the motivation of the candidate to manage others
5.	Graphology	To gauge personality attributes of the candidate from his/her handwriting
6.	Integrity Test	To gauge attitude towards theft and workplace honesty
7.	Self-report Inventory	Asking for short statements relating to personality to know about the personality of the candidate.
8.	Thomas International Profiling System (TIPS)	To identify behavioural requirements with respect to the job.
9.	Belbin Team Role	To measure the ability of the candidate to be a team-player.
10.	Gordon Personal Profile Inventory	To measure nine important universal traits that can help hire the right candidate.
11.	Myers-Briggs Type Indicator	To measure the mental and personal profile of the candidate.
12.	Guilford-Zimmerman Temperament Survey	To gauge the extent of temperamental adaptability of the candidate

13.	Minnesota Multiphasic Personality Inventory	To identify the traits with respect to aberrant behaviour of the candidate
14.	Kuder Preference Record	To identify the occupational interests of the candidate
15.	Strong-Campbell Interest Inventory	To determine occupational interests of the candidate
16.	16 Personality Factors (16 PF)	For measuring the personality factors of the candidate
17.	Multiple-choice Question Paper	To measure the specialised knowledge base of the candidate about the job
18.	Differential Aptitude Tests	To assess the numerical and mechanical reasoning of the candidate
19.	Wonderlic Personnel Test	To assess the analytical and verbal skills of the candidate
20.	Bennet Mechanical Aptitude Test	To assess the mechanical aptitude of the candidate
21.	Minnesota Clerical Test	To assess the clerical ability of the candidate
22.	One-on-One Interview	(Between the recruiter and the candidate) To know the psychic profile of the candidate
23.	Panel Interview	A panel of experts interviews the candidate to have multiple perspectives about him/her.
24.	Depth Interview	Involve deep probes for checking the different facets of the candidate's personality.
25.	Group Discussion (GD)	Employing discussion among the candidates to assess their skills with respect to group dynamics
26.	Work Sample	To test the ability of the candidate to handle functional problems by asking him/her to perform the actual role

Source: Adapted from: Kawatra, P. (1996). 'The Business Today Experimental Guide to Recruitment', *Business Today*, January 7-21, 1996, p. 58.

Errors in the selection process can have far-reaching implications. Selecting a wrong employee can prove to be a wastage in terms of time and money as the whole process has to be repeated again. It can also create lot of embarrassment for the organisation in front of different stakeholders. Therefore, the organisation must employ appropriate selection techniques to select the right candidate. Some selection techniques are described briefly in the following section.

(a) ***Interview:*** Interview is the most widely used tool of selection. It is a mechanism that allows the interviewer to personally examine the attitudinal and behavioural facets of the candidate's personality.

Arthur Andersen of Global Consultancy and Audit Organisation stresses on three elements that need to be factored into an interview process to make it really meaningful[8]. These factors are:

- **Perception Factor**: The interviewer's perception of the applicant and vice versa will influence both and hence the outcome of the interview itself.
- **Information Factor**: All the information on the applicant gathered by the recruiter must be reliable, up-to-date and comprehensive.

- **Job Specs Factor**: The fit between man and job depends largely on the availability of reliable and detailed information about the job itself. In other words, job analysis data is essential for an interview.

Thus, interview is a subjective tool of assessment that has its own share of limitations. An interviewer has to judge the personality of the candidate in few minutes. Therefore, interview needs to be complemented with some other tool of selection.

(b) ***Thomas International Profiling System (TIPS):*** It is an important psychological selection tool to provide the behavioural fit between a person and a job. It was designed by the New York-based Thomas International Management Systems (TIMS) in 1945. It creates a relatively reliable profile of a candidate and also offers insight into the areas where the candidate needs improvement. The system has a historical accuracy level of 85 per cent, and is increasingly being used in global corporations, like Volkswagen, R.J. Reynolds, Estee Lauder, American Express (AmEx), etc. as an aid to recruit, train and counsel employees and to build teams[9].

The Thomas International Profiling System (TIPS) consists of two distinct components:

- **Personal Profile Analysis (PPA):** This component of TIPS highlights the behavioural characteristics of the applicant and helps in explaining his/her internal and external motivation factors. It measures an employee's behaviour at workplace by identifying:
  (a) How the employee perceives himself/herself?
  (b) How he/she could be perceived by others?
  (c) How he/she would behave under pressure?

  The Personal Profile Analysis can be implemented easily because its questionnaire contains only 24 questions that have to be answered in ten minutes. The answers are analysed by a software and a three-page behavioural profile of the candidate is developed on the following four characteristics: Dominance, Influence/Inducement, Steadiness and Compliance/Competence. A person can be rated as high or low on these parameters, which can help in assessing his/her overall personality.
- **Human Job Analysis (HJA):** The second component of TIPS is HJA. It determines the person-job fit by comparing the skill sets and behavioural patterns that the job demands with those of the candidate. Its implementation process comprises a series of structured interactions or meetings between the candidate and the assesor.

  The two components of TIPS when combined together enable development of a compatible match between the candidate and the job. Mohan Kumar, Director (HRD), AmEx, says, 'TIPS encourages people to be less judgemental about each other as it helps identify why people behave the way they do.'

(c) ***Graphology:*** It is a technique to analyse the candidate's fitment to a particular job by analysing his/her handwriting. The first systematic attempt to match the handwriting with personality traits was made in the 17th century France. Later, in 1830, French priest Abbe Jean-Hippolyte Michon interpreted the elements of handwriting as graphic signs and coined the term graphology which means study of handwriting.

Graphology is based on the premise that the manner in which one uses space (a blank papersheet) to pen down one's script reflects one's interactions with others in real space, and thus provides a clue to one's personality. For instance, an individual who uses every inch of the paper will normally explore every element of the new situation that he/she faces with. The handwriting is usually evaluated on the basis of the following five parameters[10]:

- **Slant**: The angle of each letter in the script helps in revealing the extent of compliance and independence of the personality of an individual.
- **Speed**: The pace at which the writer forms the letters provides insights into his thinking patterns—whether he is adventurous or cautious by nature.
- **Spacing**: The spacing helps in gauging the artistic and aesthetic sensibilities of the candidate. The width and position of the margins indicate whether the writer is interested in the future or in the past.
- **Pressure**: The force with which the writer forms the letters reveals the intensity, vitality and stamina that he/she possesses.
- **Clarity**: The neatness and unity of letter formation and the space between words indicate how much organised or confused the writer's thinking process is.

The size and proportion of the letters, the size and length of the upper extensions and lower loops, and how far the extremes of the letters are expanded or contracted also provide an insight into the personality of an individual. These give an indication about the subjective components, like the artistic appeal of personality. But, it must be kept in mind that graphology is a controversial tool, and its applicability to the selection process is still being debated. It is hailed by some psychologists while derided by many others. But, it can provide rich insights into some facts about a candidate that conventional tools sometimes fail to reveal. This tool can be used in conjunction with the other selection techniques to validate and substantiate their findings.

Induction

Selection of the right candidate is only the first step in building an effective team. Even the best of the candidates may not prove to be highly productive immediately after his joining an organisation. He/she needs hand-holding in the initial few days and weeks for his/her integration into the organisation.

Induction or orientation is an introduction of an employee to the enterprise—its goals and policies, practices. Large organisations usually have a formal induction programme that is conducted by the personnel department. Through programme the new employees are explained the history, goals, values, products and services, general policies and practices, organisation (divisions, departments and geographic locations), benefits (insurance, retirement, leave, etc.), requirements for confidentiality and secrecy, safety and other regulations of the enterprise. These may even be detailed in the form of a company booklet.

The real responsibility of induction rests with the boss to whom the new recruit is attached. He/she introduces the new employee to the tasks, functions, facilities, people, special work skills and abilities, role behaviours, norms and values of the work group. Induction must be taken with utmost seriousness as the initial experience plays a crucial role not only in integrating the new employee into the organisational thinking but also in moulding the employee's behaviour during his/her stay at the organisation. The boss in the first three years of service significantly influences the whole career of an employee.

For instance, Nucor Corporation, USA places special emphasis on briefing new employees about the company's culture through its induction process called 'Nucorizing'. New employees are introduced to the elements of Nucor's culture by the company's existing employees, not the management[11].

Training and Development

The business environment is changing rapidly and new tools and technologies are emerging everyday and the older ones are getting obsolete. The concept of 'learn-unlearn-relearn' becomes highly critical in this context. Therefore, a manager has to constantly equip himself/herself with the latest know-how in order to be relevant in the dynamic corporate world. In this scenario, the role of staffing is to bridge through training and development activities the gap between the abilities that individuals have and the abilities that they need to have to perform the ever-changing tasks and responsibilities.

Training is the process of developing qualities in human resources that will enable them to be more productive and thus contribute more in the achievement of organisational goal. The purpose of training is to increase the productivity of employees by augmenting their knowledge and skills, modifying their attitude and influencing their behaviour.

Exhibit 13.1 Role of Training and Development at GE

From the very first day, the employees at GE discover that they are in the people development business as much as anything else. Jeffery Immelt, Chairman and CEO, General Electric (GE) spends roughly 40 per cent of his time on people issues, so do the other top leaders of the organisation. They teach at the Learning Center in Crotonville three or four times a month.

In a year's time, the CEO at GE reviews, in detail, five or six thousand internal resumes through a process called 'Session C'. During this session, he is not locked in a room with executives but actually sees about 300 people. The CEO spends some time in employee meetings as well as in the field with sales representatives that have been identified as having high potential. In other words, the CEO tries to reach down into the organisation.

GE has established a system for examining people's work histories and designing their next steps towards becoming global leaders.

Types of Training The major types of training that an organisation can provide is classified below:

(a) ***Business Function Training:*** This training is conceived to develop knowledge and skills relating to different business functions, like finance, marketing, lean manufacturing, quality, strategic planning, etc.

(b) ***Technical Skills Training:*** This training is aimed at developing skills that are necessary to do a particular job. It includes product training and knowledge, sales process training, information technology and computer application skills, and other technical skills.

(c) ***Performance Management Training:*** This training helps an employee improve his/her work performance by upgrading the skills that can enable him/her do a quality job, reduce wastage, etc.

(d) ***Interpersonal Skills:*** This training is employed to develop leadership skills, coaching competence, communication skills, conflict resolution, team building, customer service, diversity and cross-cultural awareness and other interpersonal skills.

(e) ***Problem-solving/Decision-making Training:*** This training enables an individual systematically solve his/her problems by learning how to define problems, be creative in developing alternatives, analyse alternatives, select solutions and implement them effectively and efficiently. If the management wants that its workers and operators, who are used to merely taking orders, should think and contribute to systematic problem-solving, it should bring in the required change in the mindset of both managers and workers. The workers of Sundram Brakes Ltd. spend a minimum of eight hours or one shift in classrooms and on the shop-floor every month, learning ways to improve quality and productivity.

(f) ***Mandatory Training:*** This training is undertaken in the areas that are mandatory as per the provisions of law, like safety, health, sexual harassment and other legal compliance.

(g) ***Personal Training:*** This training enables an individual manage his/her life and career in a better manner. It includes areas, like career planning, time management, personal finance or money management, work-life balance, public speaking, etc.

(h) ***Experiential Learning:*** Experiential learning is a widely used training methodology, which is learner-centred and involves outdoor techniques, like mountain climbing, river rafting, trekking and simulated situations to solve given problems.

Rahul Mudgal[12], leader at Mercer College, a training division of Mercer Consulting (HR cosultancy firm), highlighted that participants retain only 5 per cent information learnt through lecture, 10 per cent through reading and 30 per cent through demonstration, but they can retain up to 75 per cent information learnt through doing.

Implementation Process of Training and Development Programme Training and development activities are undertaken in an organisation setting through a four-step process described below.

1. ***Determining the training needs of individual employees:*** This can be done through developing structured questionnaires to identify the training needs of individual employees. The required information can also be generated from the performance appraisal reports of the employees. Training needs can also be identified on the basis of the organisation's expansion plans and career planning of individual employees.
2. ***Designing the training programme:*** Training programmes should be designed in such a manner that they serve the needs of the organisation by equipping its employees in the skills that are needed by the organisation.
3. ***Administering the training programme:*** The HR department should actively administer the implementation of the training programme to ensure the availability of requisite resources and infrastructure for the trainers and the trainees.
4. ***Evaluating the training programme:*** The result of the training programme in the form of the learning of the trainees and the outcome for the organisation should be analysed to evaluate its effectiveness. This information can be used to develop future training programmes.

Training Methods The employees can be trained in different skills by employing a wide variety of training methods. Given below is a brief description of various traditional and technology-based training methods:

1. *Traditional Training Methods:* Different types of traditional training methods are described below.
    - **On-the-job Training**: The employees learn how to do a task by actually performing it, after an initial introduction to the task is provided to them by an expert practitioner.
    - **Job Rotation**: The employees are made to work at different jobs in order to give them necessary exposure to handle a wide variety of tasks. This is done to develop general managerial capabilities in an employee who has to be promoted to a senior management position.
    - **Mentoring and Coaching**: The employees, also called apprentice in certain industries, are attached with an experienced and competent manager who provides information, support and encouragement to develop a wide variety of skills in them.
    - **Workshops**: The employees participate in a workshop, to have an experiential learning through role playing, simulations, management games or other group dynamics-based exercises.
    - **Workbooks/manuals**: The employees or trainees are provided with training workbooks and manuals for information and upgradation of skills.
    - **Classroom lectures**: The employees attend lectures designed and delivered by the domain experts to convey specific information and teach certain skills.
2. *Technology-based Training Methods:* Technology is being actively integrated in training programmes because of a large number of associated benefits in terms of efficiency and scaling. Different technology-enabled training methods are described below.
    - **CD-ROM/DVD/Videotapes/Audiotapes**: The employees listen to or watch selected media that convey information or demonstrate certain techniques.
    - **Video-conferencing/Tele-conferencing/Webinars/Satellite TV**: The employees listen to or participate in training activities or techniques that are demonstrated to them through electronic media.
    - **E-learning**: It involves Internet-based learning where the employees participate in multimedia simulations or other interactive modules that are executed through Internet technologies. Experts believe that organisations will increasingly rely on e-learning applications to deliver important information and develop employees' skills.

Challenges for Training Corporations worldwide are spending billions of dollars on training and development activities. These training programmes are leading to varying degrees of success for different organisations. According to Finkelstein[13] (2000), corporations today spend some $60 billion annually on training and development. Finkelstein believes that about 80 per cent of this spending is wasted because most organisations provide entertainment, not education. One-day or one-week courses just don't work. Education without repetition is pure entertainment.

Managers and supervisors are also sometimes reluctant to relieve the competent people for training because they believe that it would affect their routine work and attainment of daily targets. Usually, the persons who are likely to contribute the least to departmental objectives are recommended for training programmes.

Performance Appraisal or Performance Management

It is important to evaluate an employee's contribution to the organisational objectives for a wide variety of managerial decisions affecting his/her future, like promotion, provision of incentives, career planning, etc. Performance appraisal is the assessment of the contribution of an employee to the fulfilment of organisational objectives. This information usually forms the basis for determining who is to be promoted to a higher position. It is a vital part of the entire performance management system, which is a process of establishing performance standards and then assessing the employees' performance on the basis of these standards to arrive at objective human resource decisions.

Today, organisations are moving from merely performance evaluation to comprehensive performance management. It involves not only evaluating the performance of the candidates but also creating appropriate working conditions and a culture that breeds excellence and where employees feel motivated from within to deliver a superior performance.

Objectives of Performance Appraisal Performance appraisal provides information for a variety of organisational and individual decision-making needs. The objectives of performance appraisal are:

- Understanding the organisational performance through the performance of an individual.
- Gathering feedback for improvement
- Communicating to the individual whether he/she is moving in the right direction or not
- Gathering information for recognising and rewarding the performance of employees
- Identifying the areas for training needs and management development
- Making decisions with respect to compensation packages and incentives
- Identification of potential candidates for assignment of responsibilities and avenues for promotional growth.
- Contributing to human resource planning in an organisation

Performance Appraisal Methods Managers can choose from some of the common methods of performance appraisal described below.

1. ***Rating Scales:*** It is a popular performance appraisal method. In this method, the evaluator lists a set of performance factors such as quantity and quality of work, job knowledge, cooperation, loyalty, attendance, honesty, initiative, etc. on the basis of which he/she wants to rate the employees. The employees are rated by using an incremental scale, which usually specifies five points. Ratings may also be on a different scale, e.g. 1 to 10.

   On the rating scale, a factor, such as job related knowledge, might be rated from 1 (which means 'poorly informed about job duties') to 5 (which means 'has complete mastery on all facets of the job').
2. ***Appraisal by Objectives:*** The Management by Objectives (MBO) also serves as a mechanism for appraising the performance of managers and professional employees. With MBO, employees are evaluated by assessing how well they have accomplished the specific goals that were established by them and their manager in each key focus area at the beginning of the year.

If individuals consistently fail to attain performance in line with the standards, the managers must verify whether the objectives set by them are actually attainable and the results verifiable. The best course is to set mutually-agreed goals and then evaluate performance against them.

3. ***360-degree Feedback:*** 360-degree feedback is a method that utilises feedback from supervisors, subordinates and co-workers, with whom the employees interacts, to appraise an individual. It has been observed that it is an effective method for career coaching and helping a manager recognise his or her strengths and weaknesses. However, it is not that effective, for determining pay, promotions or terminations.

Recognition and Reward

In order to keep different positions in an organisation filled, the organisation has to ensure that individual and team contributions to the achievement of organisational goals are adequately recognised and rewarded. It has been observed that star performers begin to aim even higher when they are appropriately rewarded for their contribution. Due recognition and reward for suitable activities can prevent people from wasting their energies on non-value adding activities.

A manager needs to understand that different individuals have entirely different needs with respect to reward and recognition. Managers should make an attempt to provide an adequate level of recognition and an appropriate reward to have an optimum impact on employee motivation and commitment to organisational goals.

The following points need to be kept in mind while providing reward and recognition to the employees in an organisation.

(a) Monetary rewards are not the only type of rewards.
(b) Non-monetary rewards play a significant role in motivating the employees.
(c) How the rewards are provided is equally important as the reward itself.
(d) Recognition to an employee should be provided in front of the people whom he/she considers to be important.
(e) Provision of reward and recognition should be done in a manner that it doesn't de-motivate other employees or teammates.
(f) Wherever possible, the teams should be rewarded and recognised in lieu of individuals.

Exhibit 13.2 Performance Related Reward System at Nucor Corp, USA

The hourly wages at Nucor Corp, USA were only $9 per hour, which is half of the industry average of $18 per hour. But, Nucor's employees earned more than their counterparts in the industry because of the company's reward system that linked pay with productivity. The workers were provided with production incentive bonus, which was around 80-150% of base pay.

Nucor's incentive plans not only encouraged the employees to perform well at individual level, but also to excel at the team level as the incentive plans took the performance of the teams into consideration. Production department managers were rewarded on the basis of total annual plant performance. Their bonus was calculated on the basis of total return on asset for a particular plant.

Accountants, engineers, secretaries, clerks and receptionists were paid bonus usually 25 per cent of their basic salary on the division's net income and return on assets. The bonus plan for the senior level employees was based on return on shareholder's equity, subject to certain minimum earnings. They received bonus in both cash and stock and the breakup was around 60 per cent stock and 40 per cent cash.

Source: Dutta, S. & Subhadra, K. (2004). 'Nucor Corp's Organisational Culture', Case Folio, The ICFAI University Press, April 2004, pp. 25-36.

Variable Compensation as a tool of Recognition and Reward Organisations are increasingly resorting to designing variable pay packages for their employees on individual performance or team performance basis. These could be positioned as 'profit-sharing' programmes to motivate them by linking their performance with the monetary rewards. Designing of variable compensation is not as easy as it may seem. Given below is the list of issues that a manager needs to take into consideration while designing a reward programme.

- What should be the percentage of fixed pay?
- Should the percentage of fixed pay be the same for all functions at the same level or vary from one function to another?
- Whether to design variable compensation on individual performance or team performance.
- What should be the mechanism for determining the nature and quantum of variable component?
- What component or percentage of variable pay should be in short-term incentives and how much should be in the form of long-term constituents, like stocks?

Elements of Good Reward System A good reward system for recognising the contribution of employees of the organisation should ideally have the following characteristics.

- It should be simple but sharply focused.
- The parameters of providing a reward should be objective and easy to understand. This enables the employees understand that the reward has been bestowed on the basis of merit with complete fairness and transparency in selecting the deserving candidate.
- There should be intention to 'give' not to impose 'penalties' only.
- There should be clarity with respect to what the organisation expects by providing reward to the candidate.

Promotion

Promotion involves movement of an individual within the organisation to a higher position that has greater responsibilities and requires more advanced skills. It usually involves raise in status and salary.

Promotion is used as a reward for the past performance, experience or association with the organisation or it is offered as a result of the organisation's desire to better utilise an individual's skills and abilities to ensure that key performers are retained within the organisation. Promotion also acts as a tool of motivation to encourage the employees to deliver superior performance. Thus, it links individual objectives with organisational objectives and, in the process, ensures employee retention.

Employee Retention

The purpose of staffing is not just about filling a particular position but also to ensure that it remains filled. Therefore, organisations need to make a conscious effort to retain the manpower that they have. Employee retention is a systematic effort by the employers to create and foster an environment that encourages current employees to remain employed in the organisation by having policies and practices in place that address their diverse needs[14].

As the quality of an employee in the form of a knowledge worker has become a key competitive advantage in the present-day business scenario, retaining the employees who add significant value to the organisation has become a key challenge. Employee retention not only ensures the continuous availability of the required manpower but it also reduces the cost that is associated with recruitment, selection, placement, induction and training. Employee retention is a critical issue that needs to be handled with precision so as to avoid adverse effects of employee attrition on the organisation.

Finkelstein[15] (2000) pointed out that people do not leave their organisations because they are not appreciated, bored, want more money, better benefits, greater opportunities, but because about 50 per cent of the time they didn't get along with their boss or co-workers. Disillusionment with the vision, direction, or strategy of the company also plays a big role. Compensation is the fourth on the top 10 reasons for an employee to leave an organisation.

Employee Retention Strategies The employee retention strategy represents an integrated long-term plan to provide organisations with affordable, effective, fast and lasting solutions to improve employee retention, satisfaction and commitment[16].

An appropriate mix of employee retention strategies is implemented by the organisation in order to retain their key talent. There are a large number of employee retention strategies. Organisations can pick from them the one that they consider most relevant. Some key employee retention strategies are discussed below:

(a) ***Creating and maintaining a healthy work culture:*** Work culture prevalent in an organisation plays a vital role in the retention of employees working there. A.M. Misra, Vice-President (HR) of Tata Steel, stated that, 'In the 30 years that I have been working with the organisation, I have never applied for a job in any other company. Here, it is like being happily married to an institution and most of the employees also feel so[17]'.

(b) ***Employee participation:*** By encouraging employee participation in planning and decision-making, organisations can make them feel empowered and ensure the retention of some of them as they feel they have a meaningful role to play in the organisational functioning and are not merely a cog in the wheel.

(c) ***Provision of benefits:*** By offering both tangible and intangible benefits to the employees, organisations can increase the probability of their retention.

(d) ***Fair and competitive salaries:*** The management can conduct regular reviews of the salaries it offers for different positions and then compare them with the average salaries that are offered in their industry in that geographical region. If there are significant discrepancies, it can consider making adjustments to ensure that its salaries are in line with the marketplace.

(e) ***Fringe benefits:*** Although fringe benefits offered by an organisation, like transport, housing, communication, etc. may not be a key reason why employees continue to work for a company, but these benefits can't be worse than those offered by its competitors.

(f) ***Training and Development:*** The organisation should provide training and skill development opportunities to its employees so that they feel that they are professionally growing and are in a position to deliver better performance for the organisation.

(g) ***Providing adequate advancement opportunities:*** To develop employee loyalty, the organisation needs to develop and implement a comprehensive career planning programme to ensure that its employees know what they must do to earn a desired level of promotion and what they are likely to become if they continue to perform and stay at the organisation for a long period.

(h) ***Making someone accountable for retention:*** The organisation should measure its employee turnover rate and hold someone responsible if it declines. In too many workplaces, no one is held accountable when employees leave, so nothing is done to encourage employee retention.

(i) ***Conducting employee satisfaction surveys:*** The management won't know what's wrong or what's right until it takes a feedback from its employees. To understand the satisfaction level of its employees, it needs to conduct anonymous employee satisfaction surveys on a regular basis. This would help it take preventive measures to reduce employee attrition.

(j) ***Fostering an environment of teamwork:*** Existence of a great team spirit among the employees can be a great incentive for them to continue to work in that organisation.

(k) ***Making room for fun and enjoyment:*** The organisation should celebrate successes and give recognition to employees when milestones are reached. Birthday parties, employee picnics and creative contests can convey to the employees that they are associated with a great place to work.

(l) ***Having holistic and meaningful mission of the organisation:*** Employees want to feel that they are working towards a meaningful, worthwhile goal. The management should work with its staff to develop a meaningful mission statement that gives internal satisfaction to its employees. The employees need to be conveyed why their contribution is important for the entire organisation to make them feel an important part of the organisation.

(m) ***Providing a variety of assignments:*** A variety of challenging assignments can be provided to employees by identifying their talents and encouraging them to stretch their abilities into new areas. It helps keep the workplace stimulating and provide an incentive to the employees to be a part of the organisation for a long time.

(n) ***Communicating openly:*** The employees are likely to be more loyal to an organisation when they believe the managers keep them informed about key issues.

(o) ***Flexibility:*** The employees have many commitments outside their job, often including responsibility for children, ageing parents, chronic health conditions and other issues. They are likely to be more loyal to workplaces that make their lives more convenient by offering facilities that let them focus on the core job while some of their other responsibilities are taken care of by the organisation. Flexibility in working hours can also be of great help in retaining the employees as it helps them maintain work-life balance.

(p) ***Developing an effective orientation programme:*** The management can help the employees understand the organisation and perform their role in a better manner by designing and implementing an effective orientation programme. This can reduce the possibility of creation of wrong perceptions on the part of employees and help them stabilise in the new job.

(q) ***Providing best possible equipment and supplies to the employees:*** Working with equipment that is old and obsolete or which constantly breaks down lowers the morale of the employees. The organisation should ensure that the equipment of employees is properly maintained and regularly upgraded.

(r) ***Showing to the employees that they are valuable:*** The management should not only publicly recognise the outstanding achievements of its employees promptly, but also acknowledge the small contributions that they make everyday to the achievement of the organisation's mission.

(s) ***Recognition of work-life balance needs:*** The factor that most significantly affects workforce commitment is the management's recognition of the importance of personal and family life. Organisations need to develop policies and organise such activities that promote work-life balance to demonstrate to the employees that the organisation cares for them.

(t) ***Creating fearless culture:*** The employees should be welcomed to challenge the way things are being done in the organisation. The organisation needs to let them know that honest and confrontational communication is welcome, and that they will not be punished for it. This creates vibrancy and life-like feeling in the employees and the organisation.

(u) ***Instituting Employment Bond:*** Some organisations ask the employees to sign a bond for a stipulated period of time to recover the investment that they make in training and developing their employees. This also partially helps them to retain their employees.

But, as employees normally jump bonds, organisations like TCS have done away with them. Market realities are that people will stay with an organisation only if they want to and they will leave if they don't. People are likely to value their work only if they are given professional inputs[18].

Employee Retention: A Critical Analysis At a time when there is a war for grabbing the talented hands who are moving freely across companies and countries, traditional retention programme have met with a limited success. In the light of this fact, Cappelli[19] (2000) recommended the following innovative employee retention strategies that can help organisations reduce their employee attrition levels.

- ***Long-term, across-the-board employee loyalty is neither possible nor desirable:*** The focus of employee retention programmes should shift from uniform across-the-board efforts for all the employees to highly targeted efforts aimed at specific employees or groups of employees.
- ***Accepting that market, not the company alone, will determine employee movement:*** Organisations can make an attempt to become a pleasant and rewarding place to work and remove the problems that encourage employees to leave their jobs. But, they can't counter the pull of the market on their own and shield their people from attractive opportunities and aggressive recruiters.
- ***Rather than minimising employee turnover in general, influencing who leaves and when:*** The objective of employee retention programme should not be to prevent all the people from leaving the organisation but to control the direction and speed of the movement of the employees.
- ***Job design:*** By thinking carefully about which tasks to include in which jobs, companies can exert a considerable influence over employee retention rates.

ORGANISATIONAL EXIT: SEPARATION

If HR planning depicts a surplus of employees in the organisation, the management may want to reduce the workforce through separation. In the present-day highly volatile business environment and turbulent times, sometimes employee reduction becomes necessary for an organisation. The organisational exit includes all those activities that are concerned with planned separation from the employees whose contribution no longer adds value to the organisation.

Earlier in the Aditya Vikram Birla Group, loyalty was paramount and trusted employees could carry on indefinitely. But, now to make place for new talent, Kumar Mangalam has pegged the retirement age at 60. There is now a professional-appraisal and reward system, even the chairman is appraised by his juniors. By late 2000, the average age of his top executives had come down from 64 to about 45[20].

Employee Separation Methods

Organisations can reduce their employee strength by following any one of the employee separation strategies/methods discussed below.

(a) ***Firing:*** This is a permanent involuntary termination initiated by the management by giving necessary notice as per the terms of employment.

(b) ***Layoffs:*** This represents temporary involuntary termination of the employees that may last from a few days to years.

(c) ***Attrition:*** Not filling openings created by voluntary resignations or normal retirements.

(d) ***Transfers:*** Moving the employees either laterally or downward can reduce intra-organisational supply-demand imbalances.

(e) ***Reduced workweek:*** Having the employees to work fewer hours per week, share jobs, or perform their jobs on part-time basis.

(f) ***Early retirements:*** Providing incentives to older and more senior employees for retiring before their normal retirement date, also termed as Voluntary Retirement Scheme (VRS).

(g) ***Job sharing:*** Having the employees share one full-time position.

TRENDS AFFECTING STAFFING FUNCTION IN THE 21ST CENTURY

The trends which are likely to set and influence the corporate world's agenda of the staffing function in the 21st century are discussed below[21].

(a) ***Shift form a mass-manufacturing economy to a knowledge-based economy:*** This would make knowledge worker a key competitive advantage for the organisation and people would become extremely critical asset for the growth and survival for the organisation.

(b) ***Relevance of the learning and knowledge management:*** The learning of the individuals has not only to be incremental but also discontinuous. They might have to learn very different skills and competencies to sustain their professional lives. If the individuals stop their learning and updating their skills, they would not only become inefficient but also ineffective.

Organisations need to evolve learning technologies that can help their people harness new skills, knowledge and mindsets at a fast pace and develop unlearning technologies to counter the irrelevancy of the past knowledge. Learning does not automatically involve unlearning of the past. But facilitating the unlearning of the past would become a separate people management and staffing issue in the face of discontinuous change.

(c) ***Nature of work and organisation:*** Work is moving out of organisational boundaries, through outsourcing work-from-home option, increasing involvement of customers and suppliers in new product development initiatives. But most existing people management practices are for those who work together for a task, know each other and belong to the same organisation. How to manage people who work for the organisation but are its employees would offer a staffing challenge to organisations in the 21st century.

The work-from-home concept seems to be fast catching up. In the near future, Wipro Technologies wants a third of its employees to work from their residences. While this will benefit employees who have trouble travelling long distances and those with health problems, the company will save on office space, power and water.

(d) ***Changes in Employment Patterns:*** The following changes have been observed with respect to the various facets of employer-employee relationship[22]:

- The concept of lifetime employment is gradually waning.
- Outsourcing of non-core activities is gaining acceptance.
- Temporary employees are being sought for specialised functions not as full-time employees but as people who are paid on the basis of projects.
- Job creation through organised employment in rural areas because of saturation in urban markets would create a staffing challenge to find people who are ready to work and live in rural areas, leaving the comforts and amenities of a big city.
- Non-regular employment with a good number of people preferring to work part-time.
- More jobs in the service sector where people factors are considerably more important to serve and delight the customers.
- Rise of knowledge workers as a competitive advantage; the knowledge of the organisation can move with the knowledge worker to the other organisation.
- With the globalisation of workforce, there is an increased diversity at the workplace, and cross-cultural issues are gaining increasing importance. Talent has more global opportunities than in the past creating significant retention challenges.
- Teleworking or outsourcing of vital functions, like sales, customer care, etc. are creating new staffing challenges for the organisation.

(e) ***Flexi-Staffing:*** There is a rising acceptance of contingency workforce as a cost-effective strategy to address the needs of companies that do not want to hire high-level staff on a regular basis. This flexi-staffing arrangement enables organisations to meet the demands of busy seasonal projects in a cost-efficient manner by not hiring full-time employees. With staffing agencies providing screening, testing and reference checking of the job aspirants, companies can be rest assured that the temporary workers arrive in 'ready to work' mode.

The share of organised players in the flexi-staffing industry is expected to increase about 35-40 per cent by 2010. The total market itself (organised and unorganised) could grow by 35 per cent, creating 1.1-1.6 million temporary jobs in India. The maximum number of flexi-jobs are expected to be created in BPO services, engineering and healthcare industries involving high-end skills[23].

CHALLENGES FOR STAFFING FUNCTION IN 21ST CENTURY

In the light of the trends cited above, the following challenges with respect to the staffing function are likely to be faced by business organisations in the 21st century.

1. ***Filling Key Organisational Positions:*** There is abundant supply of unskilled, semi-skilled or less skilled manpower but acute shortage of good quality managerial and technical personnel. Therefore, organisations throughout the world, including India, are facing acute competition for good quality human resources. With increasing competition for human resources, the cost of acquiring them has also increased manifolds. So, there is a great need for developing appropriate strategies to attract, acquire and then retain quality human resources.
2. ***Developing Competencies:*** There is a vital need for regularly developing the competencies of personnel so that they are well equipped and competent enough to meet the challenges of the ever-changing business environment.

   In the present context of hyper-competitive business environment, organisations are not just developing specific skills in different employees but they are also going for multi-skilling and developing many competencies to make their employees capable of handling effectively a variety of tasks and situations.

   As typical training programmes and seminars for making the employees competent are not proving to be that effective, newer developmental techniques are being evolved.
3. ***Retaining Personnel:*** Apart from acquiring and developing personnel, retaining them in the organisation is equally important. The employee turnover, particularly at the managerial level, is a big challenge. In order to retain their employees, organisations are adopting a variety of practices and strategies, like developing career paths, instituting fast tracks for excellent performers, stock options, innovative fringe benefits that have long-term implications and persuading the employees to remain with them with some immediate benefits like salary hikes.

   The staffing function would have to design career and motivational strategies for people whose skills are required by the organisation. Organisations will have to develop relevant performance management systems and provide challenging assignments and professional fulfilment in order to attract, motivate and retain talented employees.
4. ***Aligning HR Strategy with Corporate Goals and Strategies:*** Different types of organisations facing very different business scenarios may need entirely different types of contribution from the HR department in order to align the organisational objectives with individual objectives.

In Table 13.3 are given different but appropriate HR responses to entirely different business contexts of an organisation.

Table 13.3 Business Context and HR Response Relationship

Business Context	HR Response
Product-based Competition	To develop and implement strategies and policies that encourage personal innovation.
Price-driven Competition	To create an environment of cost-consciousness to build a focus on cost-effectiveness in managerial decision-making.
Service-oriented Competition	Develop supporting policies that not only encourage individual initiative but also reward and recognise it to create a customer-satisfying experience.
Requires Change Management	Motivate people to learn, unlearn and relearn and be open to accept new things.
Acquisitions, Mergers and Joint Ventures	To develop understanding, sensitivity and acceptance of different cultures of different organisations and evolve an appropriate mix of cultures over a period of time.

Points to Remember

1. Staffing involves all actions that ensure filling and keeping filled the positions in an organisation structure. The primary focus of staffing is on acquiring and retaining right kind of people at the right positions in the organisation at the right time.
2. The staffing process is executed by examining organisational objectives; identifying human resource requirements; inventoring available people; determining the rate of employee turnover for different positions, recruiting, selecting and inducting new entrants, and training, developing, appraising, promoting and transferring existing employees to fill the gap between what is prevalent and what is required; preparing compensation plans for retaining talent; creating an environment which fosters discharge of responsibilities; and developing career plans for existing employees.
3. Human resource planning is the process to ensure that the right number and type of people are in the right place at the right time. It can be divided into two major steps: Human Resource Inventory and Future Human Resource Requirement.
4. Human resource inventory involves assessing current human resources availability. Information on this is obtained from employment forms and employee databases.
5. Future human resource requirement involves assessing future human resource needs of the organisation by analysing the future plans and objectives of the organisation.
6. Job analysis is a systematic process to determine the various aspects of human resource requirement for different positions of an organisation in quantitative and qualitative terms. It defines different jobs in detail (duties, role and task) and identifies the human resource requirements to perform these jobs. It can be further classified as: Job Description (A written statement about how and why job is done; and what is the role and responsibility of that position.) and Job Specification (Minimum and desirable qualifications, knowledge, skills, attitudes and behaviour that a person must possess to perform a given job successfully).
7. Recruitment involves a set of activities that need to be performed for attracting sufficient number of talented candidates for filling up certain positions in the organisation structure. The HR department must translate corporate strategies into a manpower plan and accordingly develop a long-term hiring plan.
8. Selection is a process for choosing the right or the best candidates who meets the requirements of a particular position from all applicants for that position. It consists of establishing selection criteria, filling up application form, preliminary screening, selection tests, comprehensive interview, reference check, physical examination, final selection (or rejection).
9. Interview is a mechanism that allows the interviewer to personally examine the attitudinal and behavioural facets of the personality of the candidate. The three elements that need to be factored into an interview process to make it really meaningful are: Perception Factor, Information Factor and Job Specs Factor.
10. Induction or orientation is an introduction of a newly-joined employee to the enterprise, its history, goals, values, policies, practices products and services, benefits (insurance, retirement, leave, etc.), and other regulations. The real responsibility of induction rests with the boss to whom the new recruit is attached. He/she introduces the new employee to the tasks, functions, facilities, people, special work skills and abilities, role behaviours and norms and values of the work group.

11. Training is the process of developing qualities in human resources that will enable them to be more productive and thus contribute more to the achievement of organisational goal.
12. The major types of trainings are: Business Function Training, Technical Skills Training, Performance Management Training, Interpersonal Skills, Problem-solving/Decision-making Training, Mandatory Training and Personal Training.
13. Training and development activities are undertaken in an organisation setting through a four-step process: determining training needs of different individuals, designing the training programme, administering the training programme and evaluating the training programme.
14. Training methods can be broadly classified as: Traditional Training Methods (On-the-job Training, Job Rotation, Mentoring and Coaching, Workshops, Workbooks/manuals, Classroom lectures) and Technology-based Training Methods (CD-ROM/DVD/Videotapes/Audiotapes, Video-conferencing/Tele-conferencing/Webinars/Satellite TV, E-learning).
15. Performance appraisal is the assessment of the contribution of an employee to the fulfilment of organisational objectives. Common methods of performance appraisal are: Rating Scales, Appraisal by Objectives, 360-degree Feedback.
16. Performance Management System is a process of establishing performance standards and then assessing the employees' performance on the basis of these standards to arrive at objective human resource decisions. Organisations are moving towards performance management from performance evaluation.
17. Promotion involves movement of an individual within the organisation to a higher position that has greater responsibilities and requires more advanced skills. It usually involves raise in status and salary. It is used as a reward for the past performance, experience or association with organisation or it is offered as a result of the organisation's desire to better utilise an individual's skills and abilities to ensure that key performers are retained within the organisation. It also acts as a tool of motivation and links individual objectives with organisational objectives and, in the process, ensures employee retention.
18. Employee retention is a systematic effort by the employers to create and foster an environment that encourages current employees to remain employed in the organisation by having policies and practices in place that address their diverse needs.
19. Some of the key employee retention strategies are: creating and maintaining a healthy work culture, employee participation, provision of benefits, fair and competitive salaries, fringe benefits, training and development, providing adequate advancement opportunities, making someone accountable for retention, conducting employee satisfaction surveys, fostering an environment of teamwork, making room for fun and enjoyment, holistic and meaningful mission of the organisation, providing a variety of assignments, communicating openly, flexibility, developing an effective orientation programme, providing best possible equipment and supplies to the employees, showing to the employees that they are valuable, recognition of work-life balance needs, creating fearless culture, and instituting employment bond.
20. Cappelli (2000) recommended these strategies for employee retention: long-term, across-the-board employee loyalty is neither possible nor desirable; accepting that market, not the company alone, will determine employee movement; rather than minimising employee turnover in general, influencing who leaves and when.

21. Organisational exit includes activities that lead to a planned separation from employees whose contribution no longer adds value to the organisation. It can be done by firing, layoffs, attrition, transfers, reduced workweek, early retirements, and job sharing.
22. The trends which are likely to affect the staffing function in the 21st century are: Shift from a mass-manufacturing economy to a knowledge-based economy, relevance of the learning and knowledge management, changes in the nature of work and organisation, changes in employment patterns, and flexi-staffing.
23. The challenges of the staffing function, likely to be faced by business organisations in the 21st century, are: filling key organisational positions, developing competencies, retaining personnel, and aligning HR strategy with corporate goals and strategies.

Review/Discussion Questions

1. What is staffing? What are the constituents of staffing and how is the staffing process executed?
2. What trends are affecting the staffing function in the 21st Century?
3. What challenges are being faced by managers with respect to the staffing function in the 21st century?
4. Explain human resource planning.
5. Define job analysis. How can it be done?
6. Define recruitment. What decisions need to be made with respect to recruitment?
7. What are the advantages and disadvantages of different sources of recruitment?
8. What challenges are associated with recruitment process?
9. Define selection and elaborate upon different steps in the selection process.
10. Explain in detail different selection techniques.
11. What practices can lead to employee-job fit determination?
12. Define induction and explain why it is important.
13. What are different types of trainings and training methods?
14. What is the ideal process for implementing the training programme?
15. What challenges are associated with training?
16. Define and distinguish performance appraisal and performance management.
17. What are the objectives of performance appraisal?
18. Explain different performance appraisal methods.
19. What is employee retention and what are the factors affecting it?
20. Explain different employee retention strategies.
21. Elucidate different employee separation methods.

Field Exercises/Class Exercises/Group Projects

1. Students should be asked to list one or two companies that they would like to work for. They should then visit the website of the chosen company and refer to other sources to identify the reasons and facts that make the company a great employment destination. They should present those reasons as salient features of the company in the form of a formal presentation.

2. Students should be asked to identify some students from among their batchmates to whom they would like to provide a job if they start a company after passing out from the course. They should then provide specific reasons for their selection.

On the Internet

1. Visit http://www.businessballs.com/traindev.htm#starting-training-business-tips to have an in-depth understanding about different training tools and methodologies.
2. Visit http://www.nowhire.com/PDF/NowHireHR-TopTenOnlineRecruitingTechniques.pdf to learn Online Recruiting Techniques.
3. Log on to http://www.workshopexercises.com/new_page_1.htm to have a Self-Assessment of your Career Advancement Inventory.
4. Visit http://www.dol.gov/vets/tap/f-tapsupplement-createaneffectiveresume8.9.07.pdf to learn how to create an effective resume.

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Chapter 14

Motivation—Exciting People to Perform to their Potential

Really great people make you feel that you, too, can become great.

—Mark Twain[1]

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand motivation and the advantages of motivated behaviour
- comprehend the theoretical framework and select managerial perspectives of motivation
- explore the issues that affect motivation
- understand the motivational tools and techniques for building employee commitment and excitement
- appraise different motivational tools for different hierarchical levels
- understand the way to motivate problem people

INTRODUCTION

Human beings have immense potential. However, the unfortunate truth is that the average human being in a group setting, like organisation, uses only a limited part of that potential. There can be significant enhancement in the productivity of workforce if the optimum level of their actual potential is properly utilised for productive work. The success of the Japanese industry during post-World War II recovery has clearly demonstrated the power of harnessing the latent human potential through right managerial initiatives. One of the most potent managerial practices associated with productivity enhancement is employee motivation.

Every practising manager understands this fact and wants to motivate his/her team of subordinates to stretch themselves for realising their true potential while contributing to the achievement of organisational goals. To motivate people, a thorough understanding of their behaviour is essential— Why the people behave the way they do? Which inner mechanism motivates people to give their best? This understanding of human nature can enable the manager to effectively employ a vital management tool—Motivation.

Motivation is a very important aspect of the directing function of management because an essential part of a manager's job is getting people committed and keeping them excited till the organisational goal is achieved. Effective managers understand what it takes to excite and motivate people to succeed in accomplishing the desired end-result. Motivation is a general term that applies to the entire class of drives, desires, needs, wishes and similar forces. Managers motivate their subordinates by doing things which they hope will satisfy these drives and desires and induce the subordinates to act in a desired manner[2].

Organisations need to develop congruence and alignment between organisational objectives and employee aspirations, drives and desires in order to get the employees committed and excited about accomplishing organisational goals and objectives. This involves the fulfilment of different needs of different types of people. A manager has to use his wisdom to select an appropriate need of an individual the fulfilment of which can be associated with the accomplishment of the organisational goal.

ADVANTAGES OF MOTIVATED BEHAVIOUR

The motivated behaviour of employees provides tremendous benefits to their organisations. Some of these advantages are listed below:

(a) Effectively motivating an employee to do his/her job is almost equivalent to half the job done. The probability of getting a work done on time, within budget and with desired quality, increases significantly if the people involved are motivated enough to put their heart into their work.

(b) A highly motivated workforce from the lower level to the top has a positive impact on the productivity and results of an enterprise. Sanjiv Goenka[3], Vice-Chairman, RPG Enterprises says, 'Global competitiveness can be achieved not through the best technologies and plants, but by effectively motivating the employees to perform at global standards'.

(c) A motivated employee has a drive to do well and is easy to deal with. He knows what job he/she has to perform and is always ready to do it. This makes it easy to direct and channelise his/her energy towards a goal efficiently and effectively.

(d) The motivated subordinates are likely to work just as much when the team leader is not around as they do when he/she is there.

(e) The motivated behaviour serves as a basis for self-satisfaction and enables the individual understand self-worth.

(g) Individuals need to understand and learn the nuances of the phenomenon of motivation if they wish to become effective leaders and managers.

(h) The employees with higher levels of motivation have lower levels of absenteeism.

(i) The employee turnover can be reduced to some extent if the employees are motivated to perform their tasks.

(j) The organisations with motivated employees find it relatively easier to introduce a change than the organisations where employees are primarily demotivated.

MOTIVATION: A THEORETICAL BACKGROUND

Over the years, psychologists and behavioural scientists have developed various theories on employee motivation. These theories are based on the premise an individual's attitude or behaviour is strongly influenced by the intensity of his/her desire to fulfil his/her different needs. The motivation theories explained below can help the managers understand why people work and how can one boost their morale and influence their behaviour to get things done.

Maslow's Hierarchy of Needs Theory

This fundamental theory of motivation was proposed by psychologist Abraham Maslow[4] in his research paper titled *A Theory of Human Motivation* in early 1943. The theory stated that human needs follow a five-level hierarchy—from the lowest to the highest (depicted in Fig. 14.1). When a particular level of needs of an employee is satisfied, it ceases to be a motivator. In that situation, a manager has to tap into the next higher level of needs of the concerned employee to keep him/her motivated.

The different levels of needs in Maslow's Hierarchy of Needs are described below in ascending order of importance.

1. ***Physiological Needs:*** These are the basic needs of an individual that ensure his/her existence and sustenance of life. These needs are food, water, warmth, shelter and sleep. Maslow advocated that satisfying these needs is essential to motivate individuals to exert themselves for the attainment of group goals. Unless this first level of needs is satisfied, providing solutions for higher levels of needs will not motivate individuals to work wholeheartedly for their organisation.
2. ***Security and Safety Needs:*** After ensuring their basic existence, people want to fulfil the second level of needs to ensure sure that they and their dear ones are safe and secure from a wide variety of dangers in the present as well as in the future. The second level of needs arises due to fear of losing job, earning capability, etc. These needs can be satisfied through acquisition of bank balance, insurance, fixed assets, etc. According to Maslow's theory, unless the basic needs (physiological and safety needs) of a human being are satisfied, other levels of needs are of no consequence to him/her. Further, once these basic needs of an individual are satisfied, they no longer serve as a motivating factor for him/her.
3. ***Social (Affiliation and Acceptance) Needs:*** Once an individual starts feeling secure in the present and the future, the third level of needs becomes important for him/her. He/she desires to be accepted and loved by others. This need is satisfied by the acceptance and recognition of the individual by others and their desire to associate with him/her.
4. ***Esteem Needs:*** This is the fourth level of needs in Maslow's Hierarchy of Needs. This level assumes importance after an individual's need of being accepted by others is satisfied. Now, he/she desires to be respected and held in high esteem both by himself/herself and others. This need can be satisfied by attaining a position of power, attaining status and prestige in society, acquiring premium branded products, achieving something worthwhile, etc.

5. ***Need for Self Actualisation:*** This is the highest level of needs in Maslow's Hierarchy of Needs. It represents the desire of an individual to be free to do what he/she really wants to do in life or become what he/she is capable of becoming. This need characterises the desire of an individual to maximise his/her capabilities/potential and accomplish something that he/she considers really worthwhile and leads to the fulfilment of a lifetime dream.

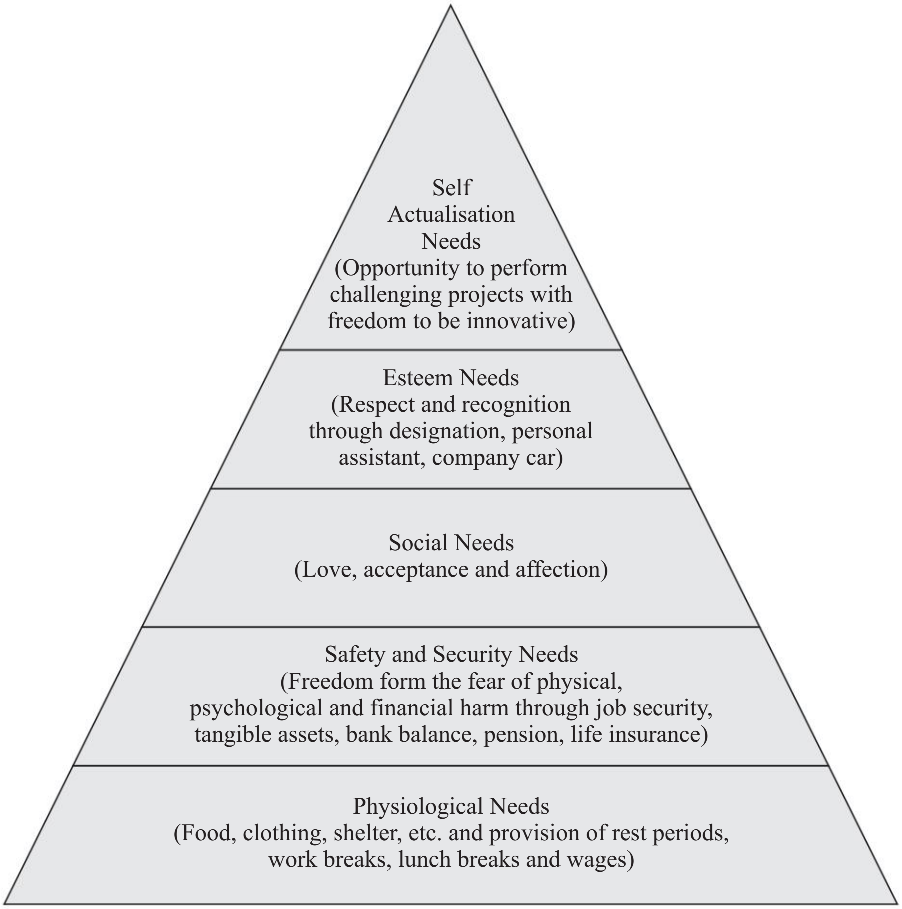

Figure 14.1 Maslow's Hierarchy of Needs

According to Maslow's theory, a manager can motivate his/her subordinates by understanding their current level of need and aligning the solution for fulfilling these needs with the achievement of organisational goals. Although Maslow's theory was extremely popular in the 1960s and even today is one of the most quoted theories of management, it has the following limitations:

(a) Research studies have found little evidence to support this theory[5].

(b) The viewpoint about a hierarchy of human needs has been found to be wrong. Empirical research studies have revealed that human needs do not always emerge in a hierarchical manner[6]. For example, an artist attempts to satisfy his self-actualisation needs even if he does not earn enough to feed himself.

(c) The same need may generate entirely different behaviours in two different persons. Therefore, there might not be a clear-cut cause-and-effect relationship between a need and behaviour.

Herzberg's Motivation-Hygiene Theory

Herzberg and his associates[7] developed the Motivation-Hygiene Theory, also known as the 'Two-Factor Theory of Motivation'. They arrived at this theory after interviewing 200 engineers and accountants. The interviewees were asked to recall the instances when they were satisfied and dissatisfied with their work.

According to the respondents, the following aspects of their job, gave them satisfaction: challenging work, opportunity to receive recognition or promotion or growth in the job, chance to take over new responsibilities and the sense of personal achievement and personal growth. Herzberg termed these factors 'motivators'. The factors that led to dissatisfaction of the respondents were related to company policy and administration, poor working conditions, salary, job security, quality of supervision, interpersonal relationship, etc. These were termed as 'hygiene factors'.

Herzberg observed that motivators were those factors whose presence gave satisfaction, but their absence did not lead to dissatisfaction. The hygiene factors were those factors whose absence led to dissatisfaction but their presence did not satisfy the respondents. Hence, Herzberg proposed the existence of a dual continuum: the opposite of 'satisfaction' was not dissatisfaction but 'no satisfaction' because the factors that led to satisfaction were quite different from the ones which caused dissatisfaction. Similarly, the opposite of 'dissatisfaction' was not satisfaction but 'no dissatisfaction'. Thus, removing the causes of dissatisfaction from an individual's job would not necessarily satisfy that individual. The presence of hygiene factors only prevents an individual from being dissatisfied.

The major criticism of Herzberg's theory is that it is a study about job satisfaction and not pertinently about motivation. In the management literature, the domains of motivation and job satisfaction have been approached and examined distinctively.

Comparison between Maslow's Need Hierarchy Theory and Herzberg's Two-factor or Motivation-Hygiene Thoery

(a) Maslow's theory is primarily about the relationship of human needs with the motivation of the employee, whereas Herzberg's theory is about relationship between various factors related with the job and the employee satisfaction.

(b) Abraham Maslow proposed that human needs follow a five-level hierarchy—from the lowest to the highest. However, Herzberg saw no hierarchy of human needs. He suggested that human needs can be classified into two categories—hygiene factors and motivators.

(c) Maslow suggested that human needs have different levels and when a particular level of needs of an employee is satisfied, it ceases to be a motivator. In that situation, the manager has to tap into the next higher level of needs of the employee to effectively motivate him/her. But, Herzberg opined that only motivators, not the hygiene factors, could motivate individuals because they lead to job satisfaction.

(d) Herzberg's theory seems to be more relevant to a society where basic needs are almost assured and providing hygiene factors to employees does not create any satisfaction for them. However, in developing and under-developed world, the large percentage of population, that does not have access to even basic amenities, might be motivated through provision of hygiene factors (physiological and safety needs) as was suggested by Maslow.

Alderfer's ERG Theory

Clayton Alderfer[8] named this theory as ERG theory on the basis of three sets of needs that can motivate an individual: Existence, Relatedness and Growth. This theory is similar to Maslow's Need Hierarchy Theory in the following comparison: the need for existence is akin to physiological and safety needs; relatedness is equivalent to social need; and the need for growth is equivalent to esteem and self actualisation needs. But, the main difference between these two theories is that unlike Maslow, Alderfer saw no hierarchy in the three sets of needs he proposed. One set of needs may be a motivational factor for one individual while the other entirely different set of needs may be a motivational factor for another individual (both having a similar background) during the same period of time. Similarly, different sets of needs motivate the same individual in two different contexts and during two different time periods. An individual may even be motivated by different sets of needs in the same time period.

McGregor's Theory X and Theory Y

Douglas McGregor[9] suggests that managers have two different sets of general perception about the nature of people and how they perceive their work in an organisational setting. These two sets of assumptions are manifested in the manager's approach and behaviour towards their subordinates. They also significantly influence the manner in which managers motivate their subordinates and the tools that they apply for the same. McGregor categorised these assumptions of managers about human behaviour and human beings into two distinct groups, termed as Theory X and Theory Y.

Theory X It represents a set of somewhat negative assumptions of managers with respect to human nature and employees' attitude towards work. The managers, who subscribe to Theory X, believe that:

- Average human beings have an inherent dislike for work and will like to avoid it whenever possible.
- Average human beings tend to avoid responsibility and have very little ambition, security is their main concern, and they prefer to be directed.
- Most people are self-centred. Because of these human characteristic, most people must be closely directed, controlled, coerced and threatened with punishment to get them to put in the required effort in their work to achieve organisational objectives.
- Most people are gullible and unintelligent and have little aptitude for creativity needed to solve organisational problems.
- Most people resist change.

The managers who believe in Theory X, practise an authoritarian and repressive managerial style. Their communication mode is generally one-way and they exercise a tight control over the organisation. Under Theory X, the management's approach to motivation relies on coercion, implicit threats, micromanagement and tight controls.

Theory Y: Theory Y represents a totally different approach to motivation. Managers subscribing to this theory have relatively positive beliefs about human nature and the employees' attitude towards work. A manager who believes in this theory assumes that:

- Average human beings do not inherently dislike work. Individuals perceive the physical and mental effort while performing work as natural activity, like play or rest.
- Organisational objectives can be achieved even without instituting external controls and announcing threats of punishment. Individuals can exercise self-direction and self-control while achieving the objectives to which they are committed.
- The degree of commitment of individuals towards organisational objectives is in proportion to the size of the rewards associated with them.
- Average human beings can learn to accept responsibility and also seek it on their own if proper conditions are provided to them.
- The capability to use imagination, ingenuity and creativity for solving organisational problems is widely prevalent in the population and is not narrowly distributed to a select group of people as it is normally perceived to be.
- The intellectual potential of the average human being is only being partly utilised in the present-day organisational setting.

Because of the assumptions of Theory Y, there is an opportunity to align personal goals with organisational goals by using the employee's own need for fulfilment as the motivator. Control, achievement and continuous improvement are achieved in this approach by enabling and empowering teams and by giving them responsibility. This approach is permissive and seeks harmony in the hope that, in return, employees will cooperate when asked. Managers, who follow the Theory Y approach, have a liberating and developmental managerial style. They invite suggestions from their subordinates. They give rewards and remuneration to motivate their team members. They are more adept at building teams and working for staff welfare.

McGregor's work was based on Maslow's Hierarchy of Needs. He grouped Maslow's hierarchy into 'lower order' (Theory X) needs and 'higher order' (Theory Y) needs, but without any hierarchy as was proposed by Maslow. McGregor proposed that participation in decision-making, creation of responsible and challenging jobs, and establishment of good relations in accordance with the assumptions of Theory Y could maximise the employee motivation.

McGregor suggested that the management could use either set of approaches to motivate employees. Better results could be gained by the use of Theory Y rather than Theory X (Heil, Bennis, & Stephens[10], 2000).

Clarification of McGregor's Theories

1. These theories represent only the assumptions of different managers about human nature. They do not advocate which theory is bad or which is good.
2. Different tasks and jobs require different approaches to be followed.
3. Different approaches might be useful for the same individuals in different contexts.

4. McGregor asserts that the extremes of Theory X and Theory Y approaches are not appropriate and optimal. If the hard approach (implicit in Theory X) results in hostility, deliberate low-output and extreme union demands, then the soft approach (implicit in Theory Y) results in an increasing desire for greater reward for diminishing work output. The optimal approach to human resource management lies somewhere between the extremes of Theory X and Theory Y.

Criticism of Douglas McGregor's Motivational Theory

- Most employees (and managers) fall somewhere in between the two theories suggested by McGregor.
- Recent studies have questioned the rigidity of McGregor's model but his X-Y Theory remains a guiding principle of positive approaches to management and organisational development and for improving organisational culture.
- No management theory can work with every organisation to the same degree because nothing is universally and perennially true. Sometimes one theory may work with somebody at one time and may not work with the same person at another time.
- According to D. Quinn Mills, Professor Emeritus, Harvard Business School, 'McGregor's Theory X and Y is as useful as ever. The distinction describes attitudes of a manager towards employees. A manager must be realistic about what he or she actually encounters in the workplace'.

Theory Z

It is a term applied to two very different psychological theories, which are described below.

(i) ***Theory Z propounded by Dr. William Ouchi:*** Theory Z represents a set of practices or management styles that were recommended by William Ouchi to American companies to meet the Japanese Challenge. 'This is a managing style that focuses on a strong company philosophy, a distinct corporate culture, long-range staff development, and consensus decision-making' (Ouchi[11], 1981). Theory Z is an adaptation or customisation of the 'Japanese Management' style for the American corporate environment. The concept was developed while understanding the best practices of the Japanese management which could be used in American companies.

William Ouchi does not suggest that the Japanese practices that contributed to the huge success of Japanese companies at that time are necessarily the best strategy for the American companies. However, he recommends that the Japanese practices when adapted to the American context can give optimum results to the American companies.

Ouchi contrasted American organisations (Type A) that were rooted in the tradition of individualism with Japanese organisations (Type J) that drew upon the Japanese heritage of collectivism. He argued that an emerging management philosophy, termed Theory Z, would allow organisations to enjoy many advantages of both the systems. According to Ouchi, Theory Z organisations exhibit cultural values that are similar to a clan culture, with homogeneity of values, beliefs and objectives that emphasise complete socialisation of members to achieve the congruence of individual and group goals. They also retain some elements of bureaucratic hierarchies, like performance evaluation, formal authority relationships and some work specialisation. The characteristics of Theory Z organisations are listed below.

- Provision of a job for lifetime.
- Strong focus on the employee well-being (both on-job and off-job) because such a holistic concern results in lower employee turnover.
- Consensual decision-making but individual responsibility.
- Informal control with formalised measures
- Moderately specialised career path
- Increased job commitment, morale and satisfaction, and significantly higher productivity.

Ouchi proposed the following twelve strategies to transform a typical American company (Type A company) into a Type Z company.

(a) Trust employees as it leads to openness to say what one feels.
(b) The company should audit its philosophy to figure out how it is behaving with its employees and vice versa.
(c) The management should define the desired philosophy by involving individuals in a transparent and fearless environment.
(d) The company needs to create a structure and incentives to give a message that whoever is struggling to deliver can feel assured that his team will pick him up.
(e) The company should impart good interpersonal skills to its employees so that managers listen more and know when to interrupt.
(f) The company must be willing and able to test itself and the system to determine its ability to manage.
(g) In order to have a low employee turnover, the company needs to stabilise employment by challenging every employee, giving them a variation of jobs to be performed, and not laying off employees when it is doing badly, but rather reduce their hours.
(h) Design a system of slow evaluation and promotion.
(i) Broaden the employees' career paths by providing them with experience of every aspect and every department in the company.
(j) Ensuring the application of Theory Z at the lower level by starting from the top so that the manager and supervisors can gain the trust of the workers and operators.
(k) Finding areas where employee participation is allowed in decision-making and rewarding them for their accomplishments.
(l) Creating a sense of family among employees.

The slow growth of the Japanese economy in the 1990s made the researchers to suggest that the widespread admiration of the Japanese management practices in the 1970s and 1980s might have been somewhat exaggerated. As a result, Theory Z also received some criticism. In the light of this development it is not clear whether Theory Z will have a lasting impact on management practices in the USA and around the world in the 21st century.

Comparison of Theory Z with McGregor's Two Factor Theory: Theory Z is distinct from McGregor's Theory Y. While Theory Y is a largely psychological perspective that focuses on individual employer-employee interactions, Theory Z focuses on the organisational perspective.

(ii) ***Theory Z developed by Abraham H. Maslow (Maslow[13], 1971):*** Maslow's Theory Z is in stark contrast with Theory X and Theory Y, proposed by McGregor. It proposes that once people reach a level of economic security, they aim to strive for a life that is of high values and try to have a work life where the person would be able to create and produce. Maslow's Theory Z focuses on the attitudes and responsibilities of workers to motivate them. The present-day employees not only want to be well paid but they also want to have a job that's cool and fun-filled, and lets them discover who they really are. Therefore, managers need to understand the needs of their subordinates and provide them with the desired psychological satisfaction along with monetary benefits.

Goal Setting Theory of Motivation

This theory of motivation, proposed by Edwin Locke[14] in the 1960s, states that if clear, challenging and verifiable goals are set and they are accepted by the people who are responsible to achieve them because they believe that they are capable of achieving them, then these goals can act as strong motivators and can lead to superior performance. On the other hand, if the goals are unrealistic they can actually be de-motivating. This theory also proposes that if true participation of the subordinates is secured in setting the goals, then their commitment can be generated in achieving them.

It has been observed that providing regular feedback to the subordinates about the extent of their achievement of goals against the target outcome at a particular stage also acts as a strong motivator for them. Motivation is relatively higher if the subordinates get the feedback on their own rather than the leader having to provide it to them. However, the objectives must be verifiable so that at the end the result could be measured to find out whether the objective has been achieved or not.

Skinner Reinforcement Theory

B.F. Skinner[15], a psychologist from Harvard, developed this unique behaviourist approach for motivating employees in an organisational setting. It is also termed as positive reinforcement or behaviour modification theory because it believes that reinforcement can condition the behaviour. The theory states that to motivate the subordinates there should be a proper design of their work environment and the factors that could act as an obstruction to performance should be eliminated. A proper work environment that can motivate the employees can be created through the following practices.

(a) Analysing the nature of a job to determine what causes a worker to respond in a certain manner while performing that job.
(b) Setting specific goals with the participation of the concerned employees.
(c) Ensuring that prompt and regular feedback of results is made available.
(c) Rewarding improvements with recognition and praise.
(e) Provision of complete information about the company situation.

The Skinner Reinforcement Theory proposes that the employees can be motivated by praising their performance. On the contrary, punishment for poor performance actually leads to negative results. To praise an employee, even when his/her performance is not in accordance with the goals, the manager should find out the things that have been done right by the concerned employee.

Although behavioural scientists and practising managers have expressed their reservations about the applicability of this theory, yet a good number of companies have found it to be beneficial because this is a comprehensive approach to motivate the employees in an organisational setting.

McClelland's Needs Theory of Motivation

David McClelland[16] identified three needs or drives that motivate individuals to perform their role in the organisational setting. These needs are: power, affiliation and achievement. McClelland advocated that managers can be categorised into three distinct groups for displaying their motivational behaviour to fulfil one of the three needs which are described below.

1. ***Need for Affiliation:*** The need for affiliation refers to the desire of individuals to maintain warm, friendly relationships with others. People with affiliation as a predominant need like to socialise and help others, and derive pleasure from being loved by others. They have a tendency to avoid the pain of being rejected by a social group. To motivate individuals with a high need for affiliation, managers should provide them with a congenial work environment in which they can complete their tasks and also work with others in a harmonious manner.

   But, the affiliative managers want to be liked more than taking care to get the things done. Their decisions are usually aimed at increasing their own popularity rather than promoting the goals of the organisation.
2. ***Need for Achievement:*** The individuals, who consider achievement as their prime goal, achievement as predominant have a strong desire to succeed. However, they also harbour an equally powerful fear of failure. The characteristics of these individuals are described below.
   (a) They display an energetic behaviour.
   (b) They have willingness to work for long hours.
   (c) They come up with novel ideas to succeed even against all odds.
   (d) These individuals want to be challenged; therefore they set moderately difficult goals. But they neither set very difficult goals because they do not want to fail, nor they pursue very easy goals because then they will not get any sense of achievement.

   The achievement-oriented managers are motivated by the need to achieve. They are not much worried about what other people think about them. They focus on setting goals and enjoy reaching them by overcoming hurdles, but they put their own achievement and recognition before anything else.
3. ***Need for Power:*** This need refers to the desire of people to be influential and to have an impact on others. Such people wish to control or dominate others, and generally seek positions of leadership. Some characteristics of the individuals with power as predominant need are listed below.
   (a) They are generally good in conversation, and like public speaking.
   (b) They can often be stubborn, forthright and argumentative.
   (c) They enjoy guiding and influencing others.
   (d) They have a great likeness for power and have an intense desire to influence others.

   Power-centric managers believe that one can get things done only if one can influence the people around by the power one possesses. So, they focus on building power through influence rather than through their own individual achievement. The top manager of a company must have an intense desire to gain power for influencing people. He/she should not be guided by the need to achieve and be liked by others because he/she needs to influence others' success more than achieving new goals himself/herself or socialising with the subordinates[17]. But, this need for power must be disciplined and controlled so that it is directed towards the benefit of the institution, not towards the manager's personal aggrandisement.

To motivate an individual, the manager should first determine which of three needs, propounded by McClelland, is his/her predominant need. Then the manager should align the fulfilment of the individual's predominant need with the attainment of organisational or group goals.

Vroom's Expectancy Theory

This theory of motivation, advocated by Victor Vroom[18], is based on the process of motivation. It states that an individual's tendency to act in a certain way is based on the expectation that his/her act will be followed by a given outcome; the outcome will be followed by a reward; and that reward appears to be attractive to the individual. Vroom's Expectancy Theory identifies the following three variables of employee motivation and examines the relationships among them.

1. ***Expectancy (Effort-Performance Linkage):*** This reflects the probability perceived by an individual that by exerting a given amount of effort a certain level of performance is likely to be achieved. It means that an individual is likely to act if he/she believes that his/her actions will result in the required level of performance.
2. ***Instrumentality (Performance-Reward Linkage):*** It refers to the level of performance that the individual believes would be instrumental in achieving the potential reward. Therefore, an individual will be inclined to act if the outcome will lead to a reward.
3. ***Valence (Attractiveness of Reward):*** It refers to the importance that the individual gives to the potential reward that can be achieved by delivering a desired performance. Valence is determined both by the reward and the needs of the individual. This implies that a reward may be very attractive for one individual but unattractive for the other. Therefore, if an individual perceives that the reward is not that attractive for him/her (according to his/her personal liking), he/she would not be inclined to exert an effort to deliver the desired performance.

Figure 14.2 shows Vroom's expectancy model, depicting relationships between three variables of employee motivation.

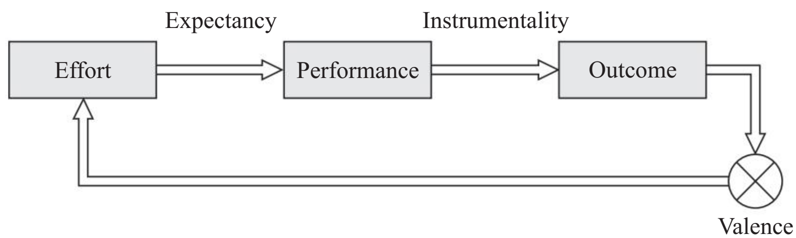

Figure 14.2 Vroom's Expectancy Model

The expectancy theory recognises that the display of motivated behaviour is based on the situation and the individuals involved. An individual's own perception of the likelihood of attaining the desired performance, the probability of performance being rewarded and the attractiveness of the reward determines his or her level of motivation. This theory stresses that managers should make an attempt to make their subordinates believe that if they make an effort, the desired outcome is achievable. This is especially needed when the goal appears to be difficult or nearly impossible at the outset. The manager should try to understand which are the rewards that the employees perceive to be attractive. Equipped with this knowledge, the manager should make an attempt to link the rewards, that the employees consider attractive, with the performance desired from them.

This comprehensive understanding of the entire motivational process and its applicability to motivate individuals make the expectancy theory a useful motivational approach. But, this theory overlooks the importance of work environment in motivating the employees. A conducive work environment greatly helps in employee motivation and creating such an environment should also be a priority for a manager.

Porter and Lawler's Expectancy Model

This comprehensive model of motivation was developed by Lyman W. Porter and Edward E. Lawler[19]. It derives a substantial portion of its concept from Vroom's Expectancy Theory. This model, as shown in Figure 14.3, indicates that the level of effort likely to be exerted by an individual depends on the following factors:

- The value of a reward.
- The perception about the nature of the required tasks.
- The quantum of effort and energy that an individual perceives is required to accomplish the task.
- The perceived ability of an individual to perform a given task.
- The perceived overall probability of the effort leading to the reward.

In Porter and Lawler's expectancy model, the majority of the factors that affect an individual's effort are conditioned by the past experience. If people believe that a task can be accomplished with their capability, the effort required to perform it is manageable and the perceived rewards are attractive, then they are more likely to be motivated to perform the given task.

Thus, the Porter and Lawler's motivation model depicts an all-inclusive system of motivation. It can act as a guide to the practising managers to motivate their subordinates to perform the assigned task. The model implies that the effort, performance, reward and satisfaction are interlinked and interdependent. It outlines the following practices that the professional managers can undertake to motivate their subordinates:

- Developing a proper system of intrinsic and extrinsic rewards that will lead to the satisfaction of subordinates.
- Developing the self-belief of the subordinates that they have the capability to accomplish the given task
- Making the subordinates believe that there exists a high probability to accomplish the task and attain the rewards.
- Making the subordinates believe that the effort required on their part is manageable for them and they can do it.

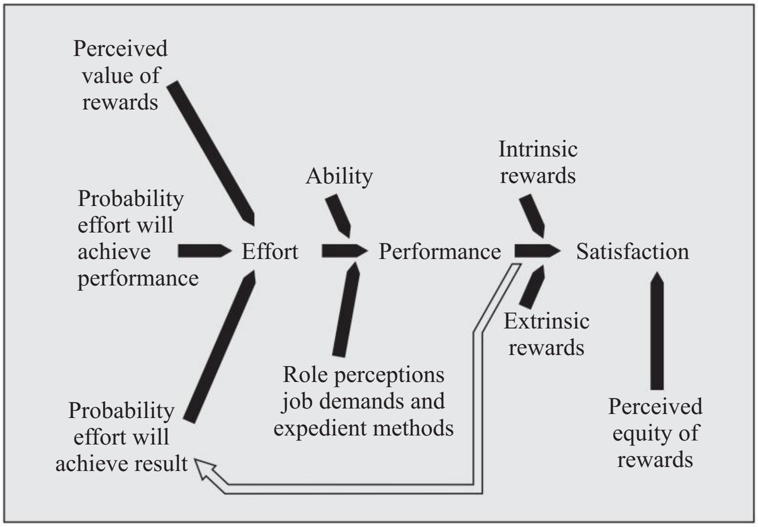

Figure 14.3 Porter and Lawler's Expectancy Model

Source: Porter, L.W. and Lawler, E.E., *Managerial Attitude and Performance*, Homewood, IL: Richard D. Irwin, Inc., 1968, p. 65

Select Managerial Perspectives on Motivation

Given below are select perspectives of senior corporate professionals on the employee motivation and their efforts in this direction.

1. ***Fiorina's Three-Step Approach:*** Carly Fiorina[20], former Chairman and CEO of Hewlett-Packard (HP), identified that the biggest motivational challenge of her life was to reinvent HP. While facing this challenge, she adopted the following step-by-step approach to motivate the key stakeholders—the employees of HP.
   (a) **Step I: Help people to confront the reality**: It is difficult for a leader to motivate people to change with his/her own interpretation of what's right and what's wrong and then outrightly implement the change. The leader needs to show a mirror to his/her subordinates to accept the reality themselves. This can be done by showing them feedback from other managers, customers, etc. When the employees confront the facts related with what is actually happening and is being felt at the grassroots level, they are more likely to accept the accompanying need to change.
   (b) **Step II: Set high aspirations**: People need aspirational goals to find meaning in their work. The challenging goals and assignments excite people to get motivated and do something that they consider is worthwhile and meaningful.
   (c) **Step III: March pragmatically from reality to aspiration**: Finally, the leader must design or help people design achievable, step-by-step measures in order to cross that uncomfortable gap between the current reality and the desired goal. While progressing towards the goal, the leader must constantly remind people of how far they have already come and how much closer they are to achieving the goal. This knowledge creates a drive in individuals to achieve their goals and objectives.

2. ***Finkelstein's Holistic Approach:*** James Finkelstein[21], Managing Director, Human Capital, Arthur Andersen, has identified the following four key dimensions that affect the employee motivation.
   (a) **Environment:** The environment is the 'where' component of the workplace. It comprises infrastructure, framework and social architecture—the factors that affect employee performance. If the environment is not appropriate, an optimum level of performance may not be delivered by the employees.
   (b) **Culture:** Culture represents the 'who' component of the workplace and includes dimensions, like: how people interact at work, how they work together towards goals, and how they treat customers. It is now evident that about 70 per cent of mergers and acquisitions fail to deliver the financial goals to the bottom line. The reason is that two different cultures, forced together, often react with volatility[22]. The same is the reason why the employees leave their organisations? A good number of them leave because they don't get along well with their boss or co-workers.
   (c) **Development:** Development represents the 'how' component of the workplace. Development in core competencies of the employees can enable them deliver a superior performance. People want to work in those organisations where they are self-empowered and are developed as assets.
   (d) **Rewards:** Reward represents the 'why people work' component of the workplace. A manager must understand that the motivation of a young executive is very different from that of a middle-aged executive in his/her forties. Therefore, traditional motivational model of compensation plans, performance reviews and merit increases might not be that effective in the present-day context to motivate one and all in the organisation. The most sought-after reward could be entirely different for different individuals. Some of the rewards that need to be considered by the new millennium managers to motivate their employees are: time off, psychic gratification from work, flexi-timing, and authentic and meaningful work that is intellectually, creatively stimulating.

It is necessary that all four components—where, who, how and why—of the workplace must be connected and integrated into a single system to create a motivational context to produce a superior employee performance. The stand-alone implementation of one or two components would fail to bring the desired results. To create an optimally motivated workplace, organisations need to improve upon all the four components over a period of time in accordance with the changes in the internal and external environments.

Issues affecting Motivation

As it is evident from the theoretical framework and managerial perspectives of motivation discussed above, there is no trick to motivate people. It requires hard thinking and hard work. Managers have to handle a good number of complex issues, concerns and questions while trying to inspire people. Some of these issues are listed below.

(a) How can one motivate individuals with different motivational levels within the same group setting?

(b) How can one influence and modify the behaviour of hundreds or thousands of employees in an organisation when it is difficult to do the same for a single individual?

(c) How can one make people feel enthusiastic, committed and motivated, especially in difficult times, against all odds?

Although answers to the preceding questions are not that easy, the following section provides some tools and techniques that can equip a manager to effectively motivate his/her subordinates to achieve a superior performance.

MOTIVATIONAL TOOLS AND TECHNIQUES FOR BUILDING COMMITMENT AND EXCITEMENT

An effective leader is essentially a great motivator. He/she has an intuitive insight into human behaviour and understands the needs and aspirations of people. If one gives a close look to the lives of great leaders, like George Washington, Mahatma Gandhi, Mother Teresa and Nelson Mandela, one can realise the depth to which motivation can be stretched.

Leaders employ a variety of ways to get their team members committed and excited because people look for a variety of things when they work. Motivation being so complex and individualised that there can be no single best tool or technique to impart it. A manager needs to select the most appropriate tool by identifying what the employees want out of their jobs in a specific situation. Given below is a critical analysis of some important motivational tools and techniques that are used by the leaders and managers to motivate different individuals by fulfilling their demands and expectations.

1. ***Money:*** Money is the most common and widely used technique of motivation. Money can be offered directly in many forms: wages, salaries, incentive, bonus, etc., or indirectly in the form of stock options, company paid insurance, etc. Managers give considerable weightage to money as a motivator but behavioural scientists do not consider it that important. Therefore, while using money as a motivator, the manager needs to keep the following points in the mind.
   - Money is an urgent means of achieving a minimum standard of living. But the definition of the minimum standard of living varies from person to person, position to position, and from time to time even for the same person. Its need also has a tendency of increasing with the increase in the standard of living.
   - Although money matters, yet today's enlightened managers need something else than money. They appreciate and seek meaning and satisfaction from their jobs. The world has changed considerably since Frederick Taylor said, 'What workers want most from their employers, beyond anything else, is high wages'.
   - Money in general is used as a means for keeping the organisation effectively staffed. The salaries and wages are so devised that they are competitive within the industry and a geographic area to attract and retain the right kind of people.
   - Money as a motivator tends to lose importance due to the practice of bringing the salaries of various managers in the company to the same or somewhat similar level. This is done to avoid dissatisfaction among the employees of the same level due to differences in their salaries.

- One problem with money as a motivator is that the increases made in the emoluments of the employees to motivate them are generally low, which do not produce the desired result. To use money as a motivator, the increase has to be large enough, which is usually not done.

Variable Pay: India has seen a dramatic rise in the level of variable pay in the overall compensation of an employee. Most organisations across industries have a variable pay ranging from 8-20 per cent of the fixed pay of the employees at different levels. In the high-risk reward sectors, such as stock-broking or investment banks, variable pay is well over 50 per cent for many sales jobs. However, it is common to have a variable pay of 20-30 per cent at senior management levels, 12-20 per cent at middle management levels, and 10-12 per cent at junior levels[23].

2. ***Rewards:*** Managers have found that job performance and satisfaction can be improved significantly by properly instituted rewards. Rewards are generally categorised into the following two basic types:
   (a) **Extrinsic Rewards**: Extrinsic rewards are external in nature. They are granted by others and include money, perks, promotion, recognition, status symbols, fringe benefits, recognition and praise.
   (b) **Intrinsic Rewards**: Intrinsic rewards are internal in nature and provide a feeling of satisfaction, accomplishment, self-actualisation, etc. to an employee. They are self-granted and internally experienced payoffs. Individuals feel happy with intrinsic rewards, like satisfaction from performing challenging and interesting jobs.

   A person may expect different types of rewards under different situations. Hence, motivation generated through rewards depends on the expectation of the employee. The manager needs to construct a balanced set of tangible and intangible incentives as rewards for good performance.

3. ***Participation:*** It is one of the most widely used and effective techniques of employee motivation. The employees generally experience motivation when they are consulted on actions affecting them. Their right kind of participation ensures an increase in their motivation and knowledge level, which contributes to the success of their enterprise. Participation allows an individual to satisfy his/her need for self-esteem, and respect from others, and provides him/her with a sense of importance. This is very useful in motivating those employees who are directly involved in an operation and have better ideas about a situation.

   In Tata Steel a system of Joint Departmental Councils (JDC) was started in 1957[24]. A JDC comprises the representatives of workers and management from a department, who meet twice a month to discuss issues such as production, productivity, costs, welfare and safety. The JDC mechanism ensures the employees' involvement in decision-making and provides them a sense of involvement, belongingness and responsibility. It gives a feeling to every employee that he/she has contributed to the company by engaging in some improvement activity or the other.

4. ***Character and Capacity:*** Trust is the foundation on which leaders develop their motivational ability. Leaders should have both character and capacity to deliver. These are essential for earning people's trust. More the subordinates trust their leader, more the leader is capable of using his/her personal power to motivate them.

5. ***Content of Communication:*** Leaders can persuade their subordinates by communicating with them effectively. But it must be remembered that the content of communication is more important than oration in the long run. The United States' President, Ronald Reagan, said in his farewell address: "I won a nickname, the Great Communicator. But I never thought it was my style or the words I used that made a difference: it was the content. I wasn't a great communicator, but I communicated great things[25]."

   To motivate people, the leader must give a voice to their deep desires and dreams and inspire them to believe that they can do what they always thought was not possible. The leader and his/her followers must share a vision, otherwise communication won't work that effectively. Communication only works when it comes from an authentic core. Some characteristics of effective communication for motivating the subordinates are described below.

   - **Guiding rather than Order:** Suggestions produce better results. Therefore, to motivate the subordinates, the manager should not always boss around by issuing orders every now and then. Rather he/she should guide people towards a better performance and be perceived as a support, not as a threat.
   - **Listening:** Active listening provides a sense of importance to the speaker. This feeling of importance goes a long way in motivating the subordinates to deliver a superior performance. If the team leader listens and deals with the concerns of the subordinates emphatically, it reinforces their level of commitment and creates the 'we're together in this' approach.
   - **Administering Criticism or Disciplinary Action in Private**: The manager should ensure that criticism for the conduct of employees should be done in privacy. This conveys to the subordinates that the manager cares for their self-respect and prevents the possibility of employee demotivation.
   - **Compelling Logic of Reasoning**: In some situations, the manager can motivate his/her subordinates to deliver a committed or superior performance by appealing to the rationality of the subordinates through a logical appeal.
   - **Using every Opportunity to Communicate:** Effective communication helps build the team spirit, belongingness and cohesion among the team members. Therefore, the manager needs to be constantly in touch with his/her team by using different media and channels of communication. Frequent conversations about the status of the project and keeping the team members informed about the latest developments are extremely important to sustain their motivation.

   The employees can't and won't do much for the achievement of the group goals if they don't know what's going on, what is expected of them, and what the future holds. There has to be a communication by travelling and meeting with the employees, updating them with regular e-mails, encouraging a two-way communication and responding personally to the employee messages[26].

   On the first day of every month, Tata Steel's MD, Mr. B. Muthuraman, addresses the 'MD online Programme', which is a one-and-a-half-hour interactive session during which he fields questions from the employees besides talking on issues pertaining to the company, its performance, future, customers and the markets. Every three months, he holds a two-hour dialogue with over 500 senior officers of the company. Every quarter, a 'general dialogue' is held with the officers at another level. These interactive and dialogue sessions are pan-India events that involve officers in the company's marketing and sales offices as well as those in the mines and collieries. The MD also attends all annual events of all the 34 Joint Departmental Councils (JDC) comprising the representatives of the workers and the management[27]. All these communication opportunities contribute to the overall motivation of the concerned employees as they convey to them that they are important.

6. ***Quality of Work Life (QWL):*** The Quality of work life programme is a socio-technical systemic approach to improve the overall quality of the life of the employees through job design and job enrichment, and by taking a holistic view of the life of the people working in the organisation. Organisations like General Motors, Procter & Gamble and AT&T have implemented the QWL programme to motivate their employees. The QWL programme also leads to industrial democracy and helps in minimising labour disputes.

   Empirical research (Herzberg's 'Two Factor Theory of Motivation', etc.) has established that there exists a relationship between motivation and making the jobs more challenging and meaningful. Job enrichment is an attempt to motivate the employees by making their jobs more meaningful and giving them an opportunity to use their entire range of skills and abilities.

7. ***Having Volunteers on the Project Team:*** The manager should preferably take volunteers for an assignment or on project teams because volunteers are usually more committed and motivated than the person who has been assigned to a project by a departmental order. Even if a volunteer is less competent, his/her commitment for the project more than compensates his/her lack of competence. Competence is relatively easier to impart than creating commitment. Because of their higher self-motivation for the project, the volunteers need not be coerced to work.

   Managers can get their team members sign up for the project to transform them into volunteers. It involves providing the subordinates with the list of goals and objectives developed by the team leader for their review and validation. When the goals' list is signed and submitted by an individual to the manager for approval, the individual is effectively signed up through ownership.

8. ***Inspiring a Shared Vision:*** The manager's key role is to create a vision of what's possible and then to demonstrate to the employees how the achievement of their own aspirations can be possible with the achievement of the vision and goals of the organisation. When the goals are shared by the project team members, they are more likely to be committed, loyal, productive, willing to put in long hours and feel much less hassled and tense. It is through the ownership of goals that the team members can become committed and excited about their individual contributions to the project.

   Great leaders and managers have the passion to deliver and accomplish the group or organisational goals. Their passion motivates their subordinates and teammates in a subtle manner.

9. ***Clearly Articulated Shared Values:*** The effective manager understands the importance of the clearly articulated values about how he/she intend to run business, programmes or projects for building and maintaining high levels of commitment and loyalty. The leader should not only institute values but also build consensus around them with their team members. This creates a shared belief among the team members that adhering to these values will bring them success.

   The degree of congruence between personal and organisational values significantly affects the level of individual commitment, willingness to work hard, attachment to customers, and the level of job satisfaction and effectiveness. Organisations like Tata, Wipro and Infosys have reaped significant benefits by weaving their entire organisation around certain key principles and values. Tata's philosophy of 'profits in a particular manner' contributes significantly to its brand building and its acceptance by different stakeholders.

10. ***Leading by Example:*** The commitment and energy of the leader for a project is often the example of what is needed from the team members. Leaders must remember that their team members constantly observe their moves and would usually respond according to the pattern of their behaviour and attitude. The quality and courage of a leader inspires his/her team. The leader through his enthusiasm must demonstrate his/her commitment and excitement with regard to each activity, event, milestone and objective of the team and the organisation to motivate the subordinates.

11. ***Empowering team members to make full use of their intelligence and natural drive:*** By empowering the team members, the leader demonstrates his/her trust in their competencies, which builds their self-confidence. Then the leader can tap into their internal self-esteem drives which act as most powerful internal performance motivators.

    By being slightly sensitive to the different needs of the team members and by responding to them, the manager can get commitment from his/her team members. He/she can motivate the subordinates to step into that slightly uncomfortable space which has some risk but where people and organisations achieve extraordinary results. The best way to do it is through open and frank discussion about the likelihood of success, by making roles and accountabilities crystal clear, by spreading the risk across the team and the organisation, and then providing visible and confident support regardless of the end-result[28].

12. ***Encouraging the Heart:*** The manager must provide opportunities to 'encourage the heart' of the team members and should not make the mistake of assuming that only money excites and motivates them. Although increases in salary or bonuses are certainly appreciated, yet this effort results in short-term benefits. Money can't buy the long-term commitment of people. Verbal recognition of performance in front of one's peers and visible awards, such as certificates, plaques and other tangible gifts, are powerful ways to get people's commitment.

    Praise, when it is sincere and believed to be earned by the individual receiving it, is one of the most effective methods to reward and celebrate the accomplishments. This builds and sustains the commitment of individual team members for a long time.

13. ***Celebrating Accomplishments:*** The manager should always be on the lookout for the ways to spread the psychological benefits of making people feel like winners because winners greatly contribute to the success of their projects. Most people in a team can be winners and would like to be winners provided they are given the chance. Successful managers understand that people just want to be winners. People don't begin each day with a desire to lose. Therefore, it is an important part of manager's job to show people that they can win.

    The accomplishment of each milestone should be celebrated as it enhances the self-esteem of those associated with the milestone. It fulfils the people's desire to be effective, noticed and appreciated. More importantly, such celebrations encourage the shared vision of what needs to be done and why it is important. Celebrations reinforce the motives to perform far more effectively than the desire for monetary rewards. As a result, challenging goals can also be realised through a motivated individual and collective effort.

14. ***Increasing Visibility of the Project Team's Efforts:*** The team members get committed and feel excited when they come to know that their manager is talking positively about their contributions in the progress of the project even to the people who are not part of the team but who actually matter to them.

    Managers can put up notice boards to highlight the contributions of different team members publicly. Schedules (bar charts and flow charts) and performance charts should be prominently displayed on the notice boards because they make the contributions of the subordinates visible, thus making them accountable and providing regular feedback on their performance. Everybody knows what everyone else is doing and is supposed to be doing. Hence, everyone can help one another out and cooperate more effectively.

15. ***Developing Self-directed Creative Work Teams:*** The ultimate goal of an effective manager is to get the task accomplished through self-motivated team members without direction, control or coercion. He/she can develop self-directed work teams who can be given considerable autonomy to make their own decisions as if they are a small business themselves. The advantage of these teams is that they do not require many of the traditional managerial controls and act as managers themselves.

16. ***Recognising Individuality:*** Behavioural differences of individuals are the result of differences in their mental capabilities, life experiences, culture and perceptions of a situation. With age often comes a reinforcement of experiences and interpretations, which are generally different for different people. Not only do the patterns of behaviour vary among individuals, the behaviour of an individual also changes over time. Therefore, it is important for managers to understand individual needs, desires, attitudes and drives of their subordinates to motivate them by presenting a right kind of opportunity and solution to satisfy them.

17. ***Showing Confidence in Followers and making them Feel Important:*** The manager's belief in the subordinates instills confidence in them and encourages them to put forward their best effort. The manager needs to show interest in the work of the subordinates and make them feel its importance. He/she needs to give credit to them wherever and whenever due and praise them in public.

    Motivation involves respecting the subordinates and providing a way for them to contribute. The first step to motivate someone is to celebrate the individual qualities that he/she possesses and which would help him make a contribution to the group. This gives an opportunity for the subordinate to shine before his peers[29].

18. ***Establishment of Appropriate and Reasonable Expectations and Goals:*** The nature of goals has a significant bearing on the kind of effort an individual is likely to put in to achieve them. If the goals are not challenging, they don't motivate a professional who is looking for a challenging assignment. If they are unrealistically high, they de-motivate the concerned individual to an extent that he/she might not even make a sincere attempt to achieve them.

19. ***Speed as Motivational Tool in Times of Pain:*** In situations when the going gets extremely tough and even becomes painful, the manager can encourage the subordinates to put in their full energy so that the task is completed fast and the painful period or the ordeal is shortened. McKinnell (2003), Chairman and CEO of Pfizer, reported that leaders can motivate people by moving them quickly towards a goal, especially if getting to the goal involves pain[30].

20. ***Egalitarian Philosophy:*** Organisations should make a conscious effort not to make too many distinctions and classes among employees. Inequity on the part of management has a significant de-motivating influence on the employees. Nucor Corp. USA strictly adhered to its egalitarian philosophy. Unlike the other Fortune 500 companies, Nucor did not own any corporate jets nor did it provide chauffeur-driven cars to its top employees. The senior executives were not provided with executive dining rooms or executive parking places. All employees, irrespective of cadre, were entitled to the same holidays, leave system and insurance programme. According to company sources, this increased the team spirit among the employees[31].
21. ***Holistic Approach—Going Beyond the Law, if Required:*** Motivation must be considered from a system and contingency point of view. It is not likely to work if the human and individual factors are not considered properly as an integrated system.

Tata Steel

We also make steel

A host of welfare measures taken by Tata Steel were implemented much before they were enforced by law. For example, Tata Steel introduced an eight-hour work schedule in 1912, long before the Factories Act was enacted in 1948. Free medical aid was made available to the company's workers in 1915 before it was made mandatory by the ESI Act of 1948. Schooling facilities for the employees' children are being made available since 1917.

In 1920 the company introduced the workers' Provident Fund Scheme, workers' Accident Scheme and leave with pay, years before they were introduced as a legal measure through the enactment of the Employees Provident Fund Act (1952), Workers' Compensation Act (1942) and Factories Act (1948), respectively.

Although according to law none of Tata Steel's workers need to be paid any bonus, the company introduced profit-sharing bonus as early as in 1934. It paid a profit-sharing bonus of around Rs.100 crore in 2004-05 to over 35,000 of its employees. The average cost to company per employee in the workers category is stated to be about Rs 3.5 lakh per annum. As a result, the company has a track record of industrial harmony of over 75 years.

Tata Steel does not stop at providing its employees with housing, civic amenities, medical facilities, education for children and opportunities for meeting career, social and material aspirations. It has introduced a family benefit scheme, under which in the event of the death of any employee, the family of the deceased gets equivalent to his last salary drawn till such time as he would have attained the age of 60 when the provident fund and gratuity benefits of the deceased are also provided to the family.

In case of accidental death and where there is no employable dependant, the family of the deceased does not have to deposit his provident fund and gratuity benefits with the company and yet gets to receive his last salary drawn till he would have attained the age of 60. One dependant of the deceased is offered a job in the company upon his or her attaining the age of 18. This provides a great sense of security to employees who know that, in the unfortunate event of their death while still in service, their families will not suffer financially.

According to R.B.B. Singh, president of Tata Workers' Union, whose membership comprises about 98 per cent of the workforce of Tata Steel, "The company has, over the years, focused on workers' welfare and upgradation of their skills".`

Avinash Prasad, Tata Steel's VP (Industrial Relations) says, 'In Tata Steel, we address the material, social and psychological needs of the workers, their self-esteem and their aspirations in terms of self-actualisation. In the process, we ensure their involvement, commitment and engagement. To foster a sense of involvement and belonging among workers, a joint consultation procedure has been put in place at every level. It is a part of the culture of this organisation to listen to the opinion of its employees'.

Source: Roy, A.S. (2005). 'Tata Steel: The pioneer', Praxis, *Business Line*, October 2005, pp. 62-67.

22. ***Sincerity:*** It has to be understood that motivational techniques will be fruitful only if practised with a sincere attitude of helpfulness and not as a gimmick or trick for getting the subordinates to perform better. Sincerity of purpose alone ultimately succeeds. The manager can motivate the subordinates by creating a perception that he/she is not too much greedy or selfish. If the manager draws a line on his/her own greed, and the subordinates see it, they are likely to be incredibly loyal and perform much better for the manager[32].

MOTIVATION: A CRITICAL ANALYSIS

In this section we would critically examine the different facets with respect to the phenomenon of employee motivation.

(a) ***Motivation is Situational and not a Personality Trait— Motivated Employees too require some Support:*** There is a wrong perception that the motivation to work is a personality trait and the motivated people will work with equal enthusiasm for all types of jobs. But a research study, conducted by Steven M. Jex of Bowling Green State University and Gary A. Adams of the University of Wisconsin, found that the employees who were most engaged in their work also reported instances of de-motivation and the lowest levels of job satisfaction[33]. The key findings of the study are as follows:

- The committed employees felt the lowest level of dissatisfaction when their work roles were ambiguous and not clearly defined.
- The engaged employees were most frustrated when they faced impediments while trying to achieve good performance and couldn't succeed at it.
- The most committed employees became de-motivated when they ceased to find their work meaningful.

In view of the above findings, the management needs to be conscious about identifying and removing the obstacles impeding their most engaged employees—the very people who they may think need the least help in staying motivated. For these high performers, the factors that they can't control, like role ambiguity, inadequate resources and overwork, can hinder their performance and may drive them to seek jobs elsewhere.

(b) ***Extrinsic Incentive Bias:*** A research conducted by Chip Health, an Associate Professor at Stanford suggests that the managers are not as good at judging the employee motivation as they think they are because there is an extrinsic incentives bias. It refers to the widely held assumption that others are more driven than we are by extrinsic rewards like pay or job security, and less driven by intrinsic motivators like the desire to learn new skills or contribute to an organisation. This assumption has been proven to be wrong and false[34].

The National Open Research Centre at the University of Chicago has conducted a General Social Survey to examine work-related issues for over 25 years. In the survey, random samples of US adults were asked to rank the importance of five aspects of their jobs: pay, security, free time, chance for advancement, and the opportunity to do 'important work [that] gives a feeling of accomplishment.' On average, the respondents ranked the important work highest, and the pay third.

But when the respondents were asked what motivates other people, three-quarters of them said that they thought that large differences in pay were needed to get people to work hard. And, two-thirds of them reported that people would not take on additional responsibility at work unless they were paid for it. By emphasising extrinsic motivators, while ignoring intrinsic ones, a manager may be using the wrong tools and developing incentives that are not according to the needs of employees. People certainly appreciate bonuses, but money alone won't have the desired effect if the managers ignore their subordinates' desire to contribute to their organisation in meaningful ways.

(c) ***Different Motivational Tools for Different Hierarchical Levels:*** Managers at different levels of hierarchy need to be provided different motivational tools in order to motivate them to deliver a superior performance[35]. The following different motivational tools can be applied for managers at different levels of management.

(i) **Top Management**: The top-level executives feel motivated when they have a sense of ownership in the company. Therefore, organisations can give company stock to its executive team members, to motivate them. Senior executives also need recognition, therefore, organisations need to recognise their contribution at appropriate platforms. They can be provided an opportunity to speak to the media on behalf of the organisation if such a situation arises.

(ii) **Middle Management**: The mid-level managers want to become senior managers, so they can be motivated by the following practices.

- They respond best to challenges to prove their ability to be considered for top positions. Hence, high performance standards can be set for the middle level managers to motivate them.
- They can be provided with assignments that can help them develop their talent and groom themselves for the upcoming senior positions.
- They can be invited to participate in strategic processes of the company.
- Providing them with an environment and autonomy to design their own work and make and execute their own decisions.
- Provision of handsome rewards for the achievement of good results.

(iii) **Frontline Management**: The employees at frontline managerial positions need a sense of stability. They can be offered an opportunity to earn a predictable bonus if they take on responsibility. Organisations need to tie the individual performance to the team performance, and the team performance to the company or unit performance. Teams might be given an opportunity to decide how they want to allocate a percentage of their team bonus to individuals with the help of some general guidelines from the corporate level.

(d) ***Motivating Problem People:*** The normally prescribed tools of motivation work with normal and average people but they may not be that effective in motivating the difficult or problem people. For such people, managers have to adopt a very different motivational approach and mindset. Nicholson[36] (2003) has identified the following dimensions to motivate difficult or problem people.

- **Creating a Conducive Environment**: The problem people can be motivated by themselves only. Therefore, instead of motivating and coaxing them, the manager needs to create the circumstances in which their inherent motivation or the natural commitment and drive is freed and channelised towards achievable goals. The task of the manager is to remove barriers or hurdles that can de-motivate the problem people. The manager also needs to review his/her own motivating management style which might be actually de-motivating such people.
- **Perception towards these People**: The manager needs to perceive these employees not as a problem to be solved but as a person to be understood. The problem employees don't like their managers much and may feel that their boss does not really care about them. The majority of the superiors also have a similar sentiment about the problem people. On account of this negative perception about one another, the conventional motivational talk of the manager is perceived as insincere by the problem employees.

  Many problem employees display the same lack of drive and commitment in other areas of their lives as they do in their jobs. So, the manager needs to understand what motivates these people.
- **Unshackling the Blocked Energy through Participation**: The natural motivation of employees is often blocked in the workplace. This can be due to varied reasons, like new or incremental stresses at home, frustrated dreams or broken promises at work, etc. They transform a person's positive energy into negative attitude and behaviour or simply divert it into non-work activities.

To motivate the problem employees to work towards the goals, the manager needs to take a judo-like approach. Instead of thrusting solutions on the problem people with the force of logical arguments, the manager needs to pull solutions out of them.

Conclusion: The psychology of motivation is tremendously complex. One of the great challenges of a manager at the workplace is to leverage the relationship between people and profits and strike an optimum balance between the two.

Points to Remember

1. Motivation is the process that enables an individual's willingness to exert high levels of effort to reach organisational goals. This willingness of the individual comes from his/her desire to satisfy some felt need.
2. There are a large number of motivational tools and techniques to generate employee motivation.
3. Motivation is situational and not a personality trait. The motivated employees too require some support.

4. There exists an extrinsic incentive bias with respect to motivation.
5. There is need for applying different motivational tools for different hierarchical levels.
6. To motivate problem people one needs an approach that is entirely different from the one required for the common people.

Review/Discussion Questions

1. What is motivation?
2. What are the advantages of motivated behaviour?
3. Explain and critically evaluate Maslow's Theory of Hierarchy of Needs.
4. Present a critical analysis of Herzberg's Motivation-Hygiene Theory.
5. Explain McGregor's Theory X and Theory Y.
6. Compare and contrast Maslow's Theory of Hierarchy of Needs, Herzberg's Motivation-Hygiene Theory and McGregor's Theory X and Theory Y.
7. Explain the background for the emergence of Theory Z by highlighting its different characteristics.
8. Explain McClelland's Needs Theory of Motivation.
9. Describe in detail Victor Vroom's Expectancy Theory and Porter Lawler's Expectancy Model.
10. Describe various issues that affect motivation.
11. Explain and critically analyse various motivational tools and techniques for building employee commitment and excitement.
12. Critically analyse the domain of motivation.
13. How do motivational tools vary for different hierarchical levels?
14. How can a manager motivate the problem people?

Field Exercises/Class Exercises/Group Projects

1. Students should be asked to select one theory of motivation that appeals to them the most. Then they should provide reasons behind selecting that theory as the most preferred one.
2. Students should narrate one incident each when somebody motivated them to do something quite willingly with complete dedication and determination, which they otherwise might not have attempted. They should provide the reason of their motivation for doing that task.
3. Students should narrate one incident each when they motivated somebody to do something quite willingly with complete dedication and determination, which the other(s) might not have attempted otherwise. They should state what enabled them to motivate that individual(s) in the first place.

On the Internet

1. Log on to http://www.factivities.com/motivation/inner_tube.html to learn motivation skills through a management game Inner Tube Exercise.

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Case Study

Dichotomy of Motivation in Corporate Sector

Vinod Dhiman, who recently joined an integrated real estate company in Sharjah as a Structure Engineer, has been facing a performance problem since his joining. The team of fitters that he was heading was not delivering an optimum level of performance. Even Parmod Kumaran, a fitter in his team, belonging to a southern state of India, who was considered an excellent fitter by his peers, was also not doing as well he should be.

Vinod, who had worked in a very high performing company in India in his previous assignment, strongly felt that the performance of fitters could be enhanced significantly to improve the overall productivity. But, Vinod was relatively new to this context as he had never worked in the Gulf before and he had joined this job only a month back. So, Vinod decided to look deep into the matter to understand the reality in a more holistic manner. Vinod felt that if he could motivate Parmod, it would create an indirect motivation for the other fitters in his team to also raise their performance levels.

Vinod informally enquired about Parmod from his colleagues who informed him that he had the potential but he was deliberately not performing as per his true capability. After getting this information, Vinod called Parmod to his office and asked him about the reasons that were affecting his performance. But, Parmod strongly reacted to his enquiries as if they were allegations that he was not performing his job properly. He clearly stated that he was putting in his best possible effort to do a good job and was doing much better than other fitters.

After few deliberations, Vinod realised that nothing significant would come out of this discussion. He sent Parmod back to his work and started thinking about a different strategy to solve this mystery. But, from this discussion with Parmod he realised that the truth would not come out through such meetings. So, he decided to adopt an approach to intermingle with the fitters in their work context to dig deep into the matter to come out with the root cause of the problem.

Vinod started participating in the working of the fitters more as a team leader rather than being a Project Manager. Gradually, the fitters started confiding in him that they were overworked and were not getting due increment. At the same time, they were also home-sick. All these factors were affecting their motivation to perform.

Now, Vinod realised what was affecting Parmod and other fitters. It was also very much evident to him that he was quite junior in the managerial hierarchy to be in a position to do something about their somewhat valid concerns. Besides, he was himself a fresh recruit in the company unable to efficiently advocate the cause of the fitters. But, as a professional he knew that something needs to be done to improve the fitters' performance because his own performance was linked to their productivity.

Vinod clearly remembered the promises he had made to the Vice President (Operations) to significantly improve the overall productivity of his unit within two quarters.

Questions for discussion and analysis

1. How can Vinod motivate the team of fitters to perform better under the given circumstances?
2. How the newness of the context does affect the approach and capability of a manager to motivate his subordinates? What steps or precautions need to be taken by a manager in such a scenario?

Chapter 15

Leading

There are many qualities that make a great leader. But having strong beliefs, being able to stick with them through popular and unpopular times, is the most important characteristic of a great leader.

—Rudy Giuliani[1]

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand leadership, and principles and functions of corporate leadership
- explore theories of leadership and different leadership styles
- comprehend factors affecting business leadership in India in the 21st century and different leadership styles in Indian organisations
- know how to develop leadership in an organisation
- understand essential characteristics of a leader and the difference between a leader and a manager
- explore followership and know why people follow a leader

INTRODUCTION

Story after story, it becomes clearly evident that the success of majority of nations, organisations, including business entities, is greatly dependent upon the quality of their leadership. This phenomenon of leadership has remained complex as well fascinating for the researchers, academicians and practitioners. The word 'leadership' has come from the word 'lead'. The term 'to lead' has two meanings: 'to excel or to be ahead' and 'to guide, govern and command others or to head an organisation'. The first meaning refers to certain qualities of leaders while the second meaning reflects the role and responsibility of an individual as a leader.

Warren Bennis[2] (2000) defined leadership as a combination of personal behaviours that allow an individual to enlist dedicated followers and create other leaders in the process. Leadership is the art or process of influencing people so that they will strive willingly and enthusiastically towards the achievement of group goals (Weihrich, Cannice & Koontz[3], 2008). It is essentially a continuous process of influencing behaviour (Terry[4], 1988).

Leadership has also been defined as the ability to secure desirable actions from a group of followers voluntarily without the use of coercion (Alford and Beatty[5], 1951). It refers to the ability to persuade others to seek defined objectives enthusiastically (Keith Davis[6], 1975). Leadership is the process of lifting of man's visions to higher sights, raising of man's performance to a higher standard and building of man's personality beyond its normal limitations (Peter Drucker[11], 1970). The very essence of leadership is its purpose—to accomplish a task. That is what leadership does, and what it does is more important than what it is or how it works (Colonel Dandridge M. Malone[7], 1983)

According to Eni's legendary CEO, Franco Bernabe[8] (1998), along with setting objectives, planning and communicating, leadership is fundamentally about humanity and morality. According to Lewis H. Lapham[9], leadership consists not in degrees of technique but in traits of character; it requires moral rather than athletic or intellectual effort, and it imposes on both leader and follower alike the burdens of self-restraint. As per Colin Powell[10], former Secretary of State, USA, leadership is the art of accomplishing more than (what) the science of management says is possible. It is not just rank, privilege, title, fame or money, but more importantly a responsibility and not a popularity contest.

IMPORTANCE OF LEADERSHIP

In recent years, due to the tremendous change that is happening in the business environment, leadership has become significantly important for the corporate sector. Leaders have not only to show the way but also to lead their followers on it. In doing this, the leader has to set an example for his/her followers. An organisation's performance is a reflection of its leadership. The unsatisfactory performance of an organisation is primarily attributed to its poor leadership. The following attributes clearly highlight the importance of leadership in business organisations:

- ***Alignment of the Organisation with Business Environment:*** Faster technological change, greater international competition, deregulation of markets, overcapacity in capital-intensive industries, unstable oil prices— all these factors are leading to a highly volatile business environment. To be effective in this situation, organisations need visionary leaders who can keep organisations aligned with the business environment on a regular basis. In today's world of fast-paced changes, there is need for visionary leadership to enable business organisations survive, grow and be profitable.

- ***Introduction of Change:*** Doing what was done yesterday, or doing it five or ten per cent better, can no longer guarantee a success for an organisation in the present-day business scenario. Major changes, which demand visionary leadership, are more necessary than ever before to survive, compete effectively and grow in this new environment.
- ***Source of Motivation:*** Leaders are a source of motivation for their subordinates. They motivate the subordinates not merely by possessing certain leadership traits but by actually utilising them to move towards the desired goals. Motivation is an essential element of dynamic leadership in the absence of which success is doubtful.
- ***Directing group activities:*** Leaders give direction to organisational efforts by developing a challenging and meaningful vision for promoting confidence and sincerity of purpose. George R. Terry[12] has appropriately summed it up as, 'A leader shows the way by his example. He is not a pusher, he pulls rather than pushes.' It is likely to be very difficult for a group of people to work efficiently without leadership because a leader can direct the group and its activities towards a common goal.
- ***Fulfilling Social Responsibilities:*** A leader ensures that the organisation remains relevant to the context in which it exists and justifies its existence over a period of time by fulfilling its social responsibilities towards different stakeholders of business: consumers, employees, investors, government, etc.

Characteristics of Leadership

Leaders are the individuals who unify a diverse group of individuals, who may be even unknown to each other, under one identity and then inspire them to work jointly to achieve common goals. The leader could be a Mahatma Gandhi who inspired 40 crore Indians join hands to throw out the mighty British Empire; or a Dhirubhai Ambani who could build the giant Reliance group from a small shop in Crawford market in Mumbai; or even a 15-year-old child who can organise the locality's children into a cricket team.

Mayo & Nohria[13] conducted a study of 1000 of the greatest political, business and other leaders of the 20th century in the search for any special traits of outstanding leaders. They could not find a single common thread because leaders had come from every walk of life: poorest of the poor as well as aristocrats, and educated as well as illiterate. They came to a very interesting conclusion: these leaders were successful because 'they could foresee an opportunity for their strengths in the prevailing environment and spirit of the time and had the courage to harness them to fulfill their mission.'

A leader has been defined in many ways, but there is no single universally acceptable definition of a leader. John Kotter[14] (1990) has defined a leader as the one who sets the direction, aligns people and groups, and motivates and inspires to create a change. Thus, leadership is a multidimensional phenomenon, whose select characteristics are described below.

1. ***Attainment of group goals:*** Leadership exists for stimulating the followers to strive willingly to attain organisational objectives or group goals. Leadership must start with the search for a vision that can unite a diverse group. It must paint a vivid picture of what the group can become. Leadership starts with a realistic understanding of where one stands and what one could become[15].

   Leaders do have a clear vision of what they want to achieve, which they pursue with great passion even against all odds. Their passion for the attainment of the vision extends beyond money and status. Bill Gates had the vision of a PC on every table and hence we have Microsoft. Azim Premji and Narayana Murthy saw the potential for a Silicon Valley in India and this gave us Wipro and Infosys[16].

The success of his/her group or organisation is the predominant cause for a leader. Viktor Frankl[17], the great Austrian psychiatrist, said it best: 'Success, like happiness, cannot be pursued; it must ensue... as the unintended side effect of one's personal dedication to a cause greater than oneself.' A business leader needs to ask, 'For what 'transcendant' purpose does my business exist? How does my business make a difference in customers' lives?'

2. ***Changing the Status-quo:*** Leadership is about the future; it is about changing the status quo. A radical agenda cannot come without leaders. Leaders energise people, create a sense of optimism and hope and provide direction. All these are prerequisites for creating the future[18].

   Effective leaders are all very different as individuals, but they have one thing in common. They are dissatisfied with the status quo and have a view of what the situation could be. While committing to transform the scenario they are undaunted by resource constraints. 'The job of a leader is not to be a good organiser (that is the role of a manager); but to be a good disorganiser.' Eventually and invariably, leaders pose the question, 'What are we doing? Is it right or wrong? And, how can we improve it? What do we need to do that we are currently not doing[19]?

3. ***Ability to influence the followers' thoughts and actions:*** Leadership is a process of influence, and a leader must be able to influence the behaviour, attitude and beliefs of his/her followers to motivate them to exert an all-out effort for the common goal of achieving organisational objectives. Leaders, who truly care for their followers, sometimes also expose them to the painful reality of their existing condition, and demand that the followers develop a response to change it to the desired reality (vision)[20]. They do not avoid conflicts. Instead of ignoring or smoothing the conflicts (like the managers generally do), leaders force them to the surface in such a way that they can be utilised in a positive manner.

4. ***Situational or contextual leadership:*** There is no single perfect leadership style that can make a leader effective in all situations. Leadership falls into many categories. Different types of situation may warrant different types of leader. Some leaders are best at strategic management and in providing an overall roadmap to an organisation, others lead best when they are directly involved in business. Some work best with start-ups and are comfortable building companies from scratch, while others prefer running or managing an existing company[21].

5. ***Persistence:*** It is rightly said that it is the rough sea that makes a great sailor. In other words, 'cometh the hour, cometh the man'. Therefore, leaders need to be persistent when things are not happening as they should be. Franco Bernabe transformed Italy's large, industrial group, Eni, from a debt-ridden, government-owned and politically controlled entity into a competitive, profitable and publicly traded corporation in his six-year tenure as CEO. However, Bernabe faced huge resistance in this formidable task. He was regularly criticised in the media as a traitor and even a fool who was destined to bring down Eni, with its 1,35,000 employees and 335 consolidated companies operating in 84 countries[22]. He ignored the criticism and continued with a missionary zeal and turned Eni around due to his sheer persistence.

Leadership is not a popularity contest all the time. Leaders need to take some tough decisions also, which are likely to be resisted by others as they would impact them negatively. These decisions have to be taken in the long-term interest of the organisation, although they appear to be harsh in the short term for some sections of employees.

Ratan Tata put the future of Tata Motors at stake when he took the decision to go ahead to manufacture his indigenously designed 'Indica' car against the might of Maruti, Hyundai and Daewoo. Indica's resounding success speaks volumes of Ratan Tata's leadership qualities. If a person is vigilant about not offending anyone, but still wants to get things done, and also wants everyone to like him and admire him, chances are that he will never make as a truly great leader[23].

6. ***Proactivity:*** The individuals who are ready to accept complete responsibility, even in the difficult times, are likely to emerge as effective leaders in a given situation or at a particular period of time. These are usually the individuals who believe, 'It is better to light a candle than to curse the darkness'. According to Rajat Gupta[24], Managing Director, Mckinsey (worldwide), leadership is, to a great extent, about taking initiative and performing tasks beyond one's limited sphere, going well beyond the immediate horizon or the task that has been given.
7. ***Winning and Inspiring Trust:*** Good leaders win over the trust of their subordinates by giving due credit and whatever has been promised for delivering the performance. According to Rajat Gupta[25], Managing Director, Mckinsey (worldwide), a leader needs to have a strong set of values that engender confidence and trust. These are more important than specific skills. Leaders must focus on gaining trust through performance. Trust goes to those with whom the followers identify. People venerate Mother Teresa and Gandhi. Leaders who exude confidence in others and who are considered selfless gain a huge following. Personal morality is an essential part of leadership, it is critical in India[26].
8. ***Turning the Subordinates into competent hands:*** People development is an essential task of an effective leader. Leaders continuously upgrade their team and use every encounter with their subordinates as an opportunity to coach and make them better and raise their self-confidence.
9. ***Self-confidence and Emotional stability:*** Leaders need to depict self-confidence to their followers even when the going is tough for the group as a whole. A leader should have a high level of emotional stability and should maintain calm and control even when times are tough and a situation is not turning as it was expected to be. He/she should be free from biases, consistent in action, and refrain from displaying anger, fear or despair, when it is not required.
10. ***Motivating the followers and making them confident:*** Apart from presenting themselves as confident persons, leaders should also act in a manner that inspires others and builds confidence in them to take up challenging tasks. A leader makes his/her followers believe that he/she has full trust in them and is confident of their achieving the desired goal. Leaders boost the morale of their followers by creating an image of a positive scenario unfolding in the future.

    They convince the followers that by making use of the exciting opportunities and possibilities in the future, they can realise individual as well as organisational goals. And, the followers, feeling inspired, unlock their immense inner power to achieve common goals.
11. ***Communication skills:*** Most leaders can communicate effectively with their followers. Communication skills do not necessarily mean great oratory or great vocabulary. These actually represent

the ability of the leader to make the followers believe and act upon what the leader is intending to communicate to them. Leading change and deriving above average performance from the followers require persuasiveness on the part of the leader, which can only be achieved through good communication skills.

12. ***Social skills:*** Proficiency in managing relationships and building networks is very important to become an effective leader. Leaders possess the ability of finding a common ground with others smoothly and quickly. Building great teams, by selecting effective deputies and leading them demand social skills of a high order. Leaders while performing the fountainhead role are also expected to liaison with the media and other stakeholders of business outside the organisation, which requires good social skills.

    Effective leaders possess the ability to comprehend that different human beings have different motivational needs. Even the same individual has different motivational needs at different times and in different situations. Therefore, leaders align the fulfilment of different needs of different individuals with the achievement of organisational goals.

13. ***Charisma:*** Many of the great leaders have charismatic personalities. Their charisma extends their zone of followership far and wide. However, it is not mandatory that all leaders should have charisma. There are many examples of non-charismatic leaders, like Abraham Lincoln, who have left lasting impressions on the world history.

    But, sometimes, charisma is given more importance than it deserves in the success of a leader. Mr. Kumar Mangalam Birla, Chairman, Aditya Vikram Birla group, states the great leaders do not always score high on charisma, as we normally think of it. Their influence derives from their idea, their conviction, the example they set, and their extraordinary ability to mobilise people and make things happen.

14. ***Character and Capacity:*** Personal integrity and trust are the basic foundation and core of leadership. First, leaders have to earn the trust of their followers, then only they can mobilise them. Being perceived as a liar can severely tarnish the image of a leader. But, it must be remembered that mere honesty is not enough if the leader is perceived to be ineffective in getting the job done. Jimmy Carter was a saint but fell short as president because people were not sure he could get the job done[27]. To have faith in a leader, people must also believe in his or her competence and steadiness. Therefore, it's important that leaders have both character and capacity for earning people's trust.

15. ***Solitude:*** It is often said that it is very lonely at the top. Great leaders need to have the ability to handle the pain of loneliness. Command is usually lonely. A sense of solitude is widely associated with leadership. It is something that every effective leader learns to live with and accept as part of the game. Koneru, founder of BPO company iTouchpoint, has rightly defined leadership as a lonely road, it is lonely on the way up and it is lonely on the way down[28].

Leader Versus Manager

The terms 'manager' and 'leader' are often treated as synonyms and sometimes used interchangeably, but there are subtle and significant differences between the two. Kotter[29] (1990) distinguishes leadership from management in terms of the emphasis that is put on four activities—creating an agenda, developing a human network for achieving the agenda, executing plans, and the outcome of activities. Leaders set direction, align people and groups, and motivate and inspire them to a create change; while managers plan, set budget, organise and control staff, and solve problems in order to maintain order for the achievement of objectives.

'A leader knows what's best to do; a manager knows merely how best to do it,' says Ken Adelman, one-time UN Ambassador and Arms Control Director under President Ronald Reagan. Just as management without leadership encourages an uninspired style which makes activities listless, leadership without management encourages a disconnected style which promotes arrogance and pride[30]. Table 15.1 outlines the difference between the leader and the manager.

Table 15.1 Distinction between Leader and Manager

Leader	Manager
Leaders can exist even in completely unorganised groups.	Managers are prevalent only in organised structures where roles and responsibilities are clearly defined.
Leaders are able to influence their subordinates even without formal authority through their personal power over them.	Managers are able to influence their subordinates due to formal authority that comes with the position they hold.
Leaders thrive on change and are not that comfortable with status quo.	Managers long for stability and maintenance of status quo, and are uncomfortable with change.
Leaders are comfortable with risk and chaos, sometimes they even create it.	Managers avoid the situation in which there can be risk and chaos.
Leaders focus on vision, mission and goals and aspire to achieve them.	Managers focus on objectives, plans, policies, procedures, budgets and rules and regulations.
Leaders have the ability to influence people to work for the vision and goals set by the leader.	Managers have the ability to plan, organise and control tasks in a systematic manner for the achievement of stated objectives.
Leaders create a paradigm shift by transforming an existing scenario into a new scenario.	Managers excel while remaining in the same paradigm under the given circumstances.

THEORIES OF LEADERSHIP

Different theoretical frameworks have been proposed by different schools of thought to analyse and examine the phenomenon of leadership. The five main theories of leadership are described below.

Traits Theory

The attempt to identify the characteristics that differentiate leaders from non-leaders led to this classical theory of leadership. The traits theory assumes that there are certain traits (qualities) inherent in a person that can produce leadership behaviour. It approaches leadership as a sum total of certain personality traits that enable an individual to emerge as a leader.

Studies observed the traits of many successful leaders. Subsequently, an exhaustive list of traits (like physical, hereditary, education, character, intelligence and ability, personality, task-related and social traits, self-confidence, charisma, etc.) was made, which an individual should possess to be an effective leader.

Limitations of the Traits Theory

- A major limitation of this theory—it fails to clearly outline the specific traits that make one a leader. Actually, people with all sorts of traits and different shades of personalities have been effective leaders at different times in different situations. There are no clear-cut traits in the absence of which a person cannot become a leader. Since different leaders possess different traits, it is difficult to identify such traits that they have in common.
- All the leaders do not possess all the identified leadership traits. Even non-leaders possess some of the leadership traits.
- This approach also fails to establish the relative importance of some leadership traits, over others. In other words, we do not have any clue which traits of a leader are relatively more important than his/her other traits.
- It has not yet become clear whether a trait like 'self-confidence' is a cause of leadership behaviour or it is an effect of it.
- Despite identifying a large number of leadership traits, the theory cannot conclude that the inculcation of specific traits would certainly make a person a leader.
- This theory does not stipulate the level to which a trait should be developed to help a person emerge as a leader.

The traits theory only has an academic value in terms of developing an exhaustive list of the traits that are associated with leadership but it's of little use as a tool for the development of leadership.

Behavioural Theories

The shortcomings of the trait theory led to a change in the emphasis of leadership research. Efforts began to determine the behaviour of leaders, thus giving rise to the behavioural approach in the study of leadership. In the behavioural approach, the focus shifted from the personal qualities or traits of leaders to their actual behaviour. According to this approach, leadership involves an interpersonal relationship between a leader and his/her subordinates. The most critical element of this relationship is the behaviour of the leader towards his/her subordinates. Different behavioral theories of leadership are described below.

Ohio State Studies The 'Ohio State Studies' represent the research undertaken by scholars and researchers[31] at the Ohio State University in the 1940s to understand the phenomenon of leadership. The research was an attempt to identify independent behavioural dimensions that could be directly associated with leadership. The researchers, originally starting with more than thousand dimensions, finally settled down on the following two dimensions of leadership behaviour.

- ***Initiating Structure:*** This dimension of leadership behaviour refers to the degree to which a leader can describe and organise his role and align it with the role of his subordinates so as to accomplish the group or organisational goals. With respect to the initiating structure, the behaviour of different leaders can be either low or high. A leader who is high on the initiating structure tends to be goal-oriented, and a strict disciplinarian and a hard task master.
- ***Consideration:*** This dimension of leadership behaviour refers to the extent to which a leader can develop effective association with his/her subordinates to motivate them to perform to the best of their ability. Leaders, who are rated high on the consideration dimension, display a behaviour

that is based on elements, like mutual trust, cooperation, coordination, concern for others, etc. The behaviour of different leaders can be either low or high with respect to the dimension of consideration. A leader, who is high on consideration, is a people-oriented individual who understands the importance of teamwork, mutual aid, support and harmony.

On the basis of the two dimensions cited above, leadership behaviour can be categorised into four groups as shown in Figure 15.1.

Consideration \ Initiating structure	Low	High
High	High consideration and low structure	High structure and high consideration
Low	Low structure and low consideration	High structure and low consideration

Figure 15.1 Two-dimensional Leadership Matrix

Empirical research on the dimensions of initiating structure and consideration led to a conclusion that a leader who, is high on both these dimensions, is likely to be more effective and can get better performance from his/her subordinates than those leaders who are low on either of these dimensions. The research studies also indicated some exceptions to this generalisation due to some situational factors.

University of Michigan Studies These studies were undertaken at the University of Michigan's Survey Research Center with an objective to identify those leadership behaviours that have a strong association with performance effectiveness. The researchers involved in these studies finally selected two dimensions of leadership behaviour, namely; employee-oriented leadership and production-oriented leadership[32].

The employee-oriented leaders were found to be having a strong focus on the different needs of their subordinates. On the other hand, the production-oriented leaders were primarily focused on the successful completion of the tasks assigned to their respective groups with scant regard for the needs and feelings of their subordinates. If people are the most important asset for an employee-oriented leader then they are just a means for an end for a production-oriented leader.

The University of Michigan studies observed that a high degree of productivity and job satisfaction was associated with the leaders who displayed employee-oriented behaviour, whereas a low level of productivity and job satisfaction was associated with production-oriented leaders.

The Managerial Grid This two-dimensional grid was developed by Robert Blake and Jane Mouton[33] by portraying the two leadership behaviour dimensions (those suggested by the Ohio and Michigan studies) as two axes of a grid.

The x-axis of the grid represents nine possible positions on the basis of the 'concern for production' and the y-axis has nine possible positions based on the 'concern for people' —from low to high. As a result, 81 different positions with respect to leadership styles or behaviours have been created in the form of a managerial grid or a 9×9 matrix, shown in Figure 15.2. The leadership styles of different individuals can be defined on the basis of the positions that they are likely to occupy on the managerial grid.

Blake & Mouton also defined major leadership styles on the basis of different positions on this grid. These leadership styles are described below.

1. ***1,1 Style (Impoverished Management):*** The managers with this leadership style have low concern for production as well as low concern for people. As it is obvious, this style is likely to be the least effective in an organisation setting.
2. ***1,9 Style (Country Club Management):*** The managers having this leadership style have low or no concern for production, but they do have a very high concern for their people. They believe that their concern for people will automatically motivate them to develop a concern for production and thus perform their role in an effective manner.

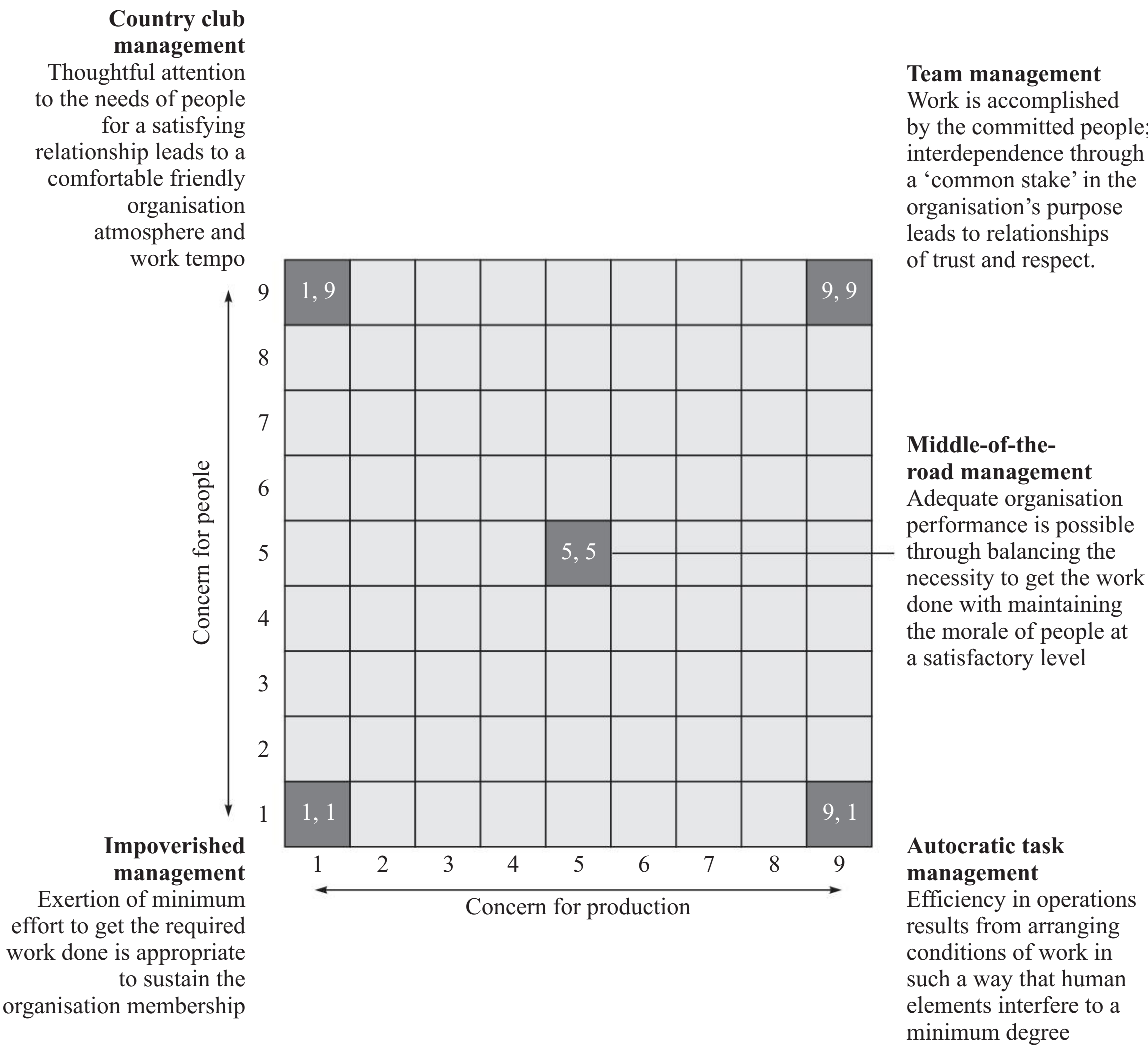


Figure 15.2 The Managerial Grid

Source: Blake, R.R.; Mouton, J.S.; Barnes, L.B. and Greiner, L.E. (1964). 'Breakthrough in Organisation Development', *Harvard Business Review*, November-December, 1964.

3. ***9,1 Style (Autocratic Task Management):*** The managers having this leadership style only possess a very high concern for the production of the desired results. They have little or no concern for the people who have to perform their respective tasks to produce the desired results.
4. ***9,9 Style (Team Management):*** The managers with this leadership style display a high concern for people as well as production. They are able to lead people effectively by aligning organisational goals with individual goals.
5. ***5,5 Style (Middle-of the-Road Management):*** The managers having this leadership style balance the need for production or output with the desire to maintain adequate morale of people to achieve the desired goals. They strike this balance by having a medium-level concern for production as well as people.

Limitations of Managerial Grid: The managerial grid depicts an exquisite classification of different leadership styles, but falls short of providing a deep insight on the leadership in action. It can be a useful tool for a manager to understand his/her leadership behaviour, but it does not provide any guidance or hand-holding with respect to the development of leadership ability. A major shortcoming of the managerial grid is that it fails to provide any empirical evidence to support the contention that 9,9 leadership style is likely to be most effective in all situations. This model also tends to equate leadership with management, but subsequent researches found them to be two distinct phenomena.

Scandinavian Studies: The two-dimensional behavioural theories of leadership, propounded by the Ohio University and Michigan University studies, were developed at a time when the world was much more stable (with a gradual pace of change) in comparison to the present-day highly dynamic and volatile business environment. To define the phenomenon of leadership in the present-day context, the researchers in Finland and Sweden felt that a third dimension of leadership is also required[34]. They identified 'development-orientation' of a leader as the third dimension. The Scandinavian studies found a strong preference for the leaders with development-oriented behaviour in the samples of leaders in Finland and Sweden.

The Situational or Contingency Theories of Leadership

Both the traits and behavioural theories could not determine with specificity which particular traits and behaviours would lead to effective leadership. This led to the development of the third approach to explain the phenomenon of leadership, known as 'situational approach'. This approach is based on the belief that an effective leadership style is specific and relative to the situation in which it occurs. Thus, this approach does not believe that leaders are born but asserts that leaders are made. It underlines the importance of exposure, experience and executive training and development programmes in the development of future leaders.

As all situations are different from one another, the situational approach is of a limited value in developing leaders capable of dealing successfully with all the situations in the corporate world. Managers just cannot learn how to handle all types of situations that they are likely to face in the near and distant future.

Different situational or contingency theories of leadership are described below.

(a) ***Fielder Model:*** This model of leadership was developed by Fred Fielder[35]. It suggests that the effectiveness of the leader and the achievement of group performance are dependent on the appropriateness of the fit between the leader's style of leadership and the extent to which the situation allows control to the leader. The Fielder model proposes a three-step process described below to determine the most effective leadership style.

(i) **Step I— Determining Individual Leadership Style**: To identify the leadership style of an individual, Fiedler developed the 'Least Preferred Coworker (LPC) Questionnaire'. This questionnaire measures whether a person is task-oriented or relationship-oriented. Fielder asked the respondents to think of all the coworkers that they have worked with in the past and rate the individual they least enjoyed working with on a scale of 1 to 8 for each of the 16 items such as pleasant-unpleasant, accepting-rejecting, supportive-hostile, etc. On the basis of the analysis of the data gathered from the respondents, Fiedler made the following conclusions:

LPC Score	High Leader is relationship-oriented
	Low Leader is task-oriented

(ii) **Step II— Identifying Contingency Dimensions**: Fiedler identified three contingency dimensions which help in classifying situations in few broad categories to match appropriate leadership styles. According to him, situations can be classified on the basis of the following parameters.

(a) **Leader-Member Relations**: It refers to the extent to which the members of a group respect and trust their leader. The leader-member relations can either be good or bad.

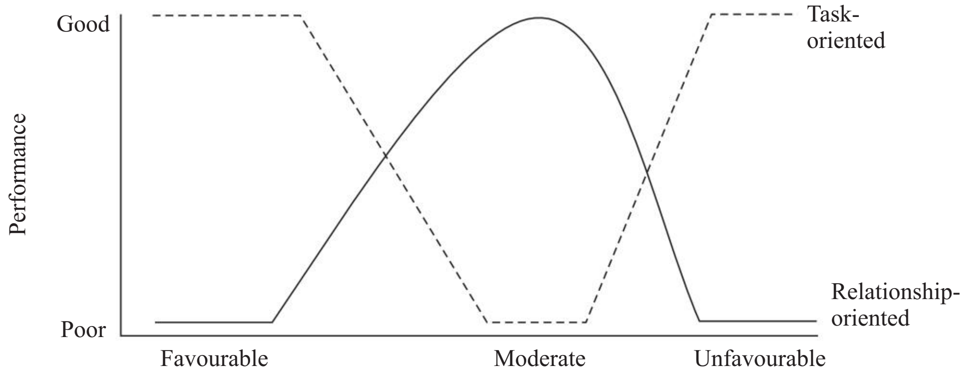
(b) **Position-Power**: It refers to the extent to which the power of a position held by the leader enables him/her to exert influence over the group members' promotions and salary hikes and make them follow the rules and regulations. It can be either strong or weak.

(c) **Task Structure**: It refers to the extent to which the work assignments of the group members are organised and structured or unstructured. It can be either high or low.

(iii) **Step III— Determining Appropriate Leader-Situation Fit**: After determining the leadership style of an individual and defining the situation in terms of leader-member relations, position power and task structure, the last step is to find out an appropriate match or fit between the leader and the situation. The appropriateness of the fit can be determined by matching the leadership style with the variables related to the situation. This analysis would finally determine the effectiveness of the leadership style and the group performance for different situations.

Figure 15.3 depicts the results that emerged from the empirical research undertaken by Fiedler. The results show that the performance of task-oriented leaders is likely to be the best in situations involving high and low control, whereas the performance of relationship-oriented leaders is the best in situations of moderate control.

(b) ***Cognitive Resource Theory:*** Fiedler and Joe Garcia[36] reconstructed the former's original theory and termed it as cognitive resource theory. This theory is based on the premise that the prevalence of stress on employees affects the performance of a group and its leader in a given situation because the leader's reaction to the stress determines the application of his/her intelligence and experience.



Category	I	II	III	IV	V	VI	VII	VIII
Leader-member relations	Good	Good	Good	Good	Poor	Poor	Poor	Poor
Task structure	High	High	Low	Low	High	High	Low	Low
Position power	Strong	Weak	Strong	Weak	Strong	Weak	Strong	Weak

Figure 15.3 Findings of the Fiedler Model

Fiedler and Garcia were of the view that the level of stress in a situation will determine whether the intelligence and experience of a leader will improve the leadership performance or not. From their studies, Fiedler and Garcia found that there exists a positive correlation between the performance of a leader and his/her intelligence under low stress but a negative correlation under high stress. And, contrary to it, the experience of a leader correlates with his/her performance negatively under low stress but positively under high stress.

(c) ***Hershey and Blanchard's Situational Theory:*** The contingency leadership theory, developed by Paul Hersey and Ken Blanchard[37], focuses on the 'followers' dimension, which has been overlooked by most of the contingency theories of leadership. Hershey and Blanchard are of the view that effective and successful leadership depends upon the level of the followers' readiness. The term 'readiness', as defined by them, refers to the extent to which people have the ability and willingness to accomplish a specific task.

By employing the dimensions of task-orientation and relationship-orientation, Hershey and Blanchard developed the following four leadership styles.

Relationship orientation	Task orientation: Low	Task orientation: High
High	Participating leadership style	Selling leadership style
Low	Delegating leadership style	Telling leadership style

Figure 15.4 Two-dimensional Leadership Matrix

(a) **Telling Leadership Style:** The leader employing this leadership style demonstrates directive behaviour and defines the roles in detail and tells the subordinates what they should do, how they should do it, when and where it should be done.

(b) **Selling Leadership Style**: The leader with this leadership style employs the combination of both directive and supportive behaviours.

(c) **Participating Leadership Style**: The leader with this leadership style employs a facilitating style by encouraging the subordinates' participation in decision-making.

(d) **Delegating Leadership Style**: The leader with this leadership style tends to provide little direction or support.

Depending on the ability and willingness parameters of the followers, they can be classified into the following four categories.

(a) Unable and Unwilling

(b) Unable and Willing

(c) Able and Unwilling

(d) Able and Willing

Hershey and Blanchard proposed that followers can be classified into four different types depending on their ability and willingness of the followers to do a task. The extent of ability and willingness determine the level of the maturity of the followers and the leaders need to portray different types of leadership behaviours with different maturity level of followers (depicted below in Table 15.2).

Table 15.2 The Follower's Ability and the Willingness and the Required Leadership Behaviour

Four Stages of Maturity	Follower's Ability/ Inability and Willingness/Unwillingness to do a Task	Required Leadership Behaviour
M1	The follower is unable and unwilling to do a task.	The leader is required to provide clear, specific and explicit directions to the follower.
M2	The follower is unable but willing to do a task.	The leader is required to be task-oriented to cope with the follower's lack of ability and relationship-oriented to make the follower keen to perform tasks as desired by the leader.
M3	The follower is able but unwilling to do a task.	The leader needs to motivate the follower to perform tasks by being helpful, encouraging and accommodating.
M4	The follower is both able and willing to do a task.	The leader is required to display a highly laissez-faire style (no unnecessary intervention)

Hershey and Blanchard categorised all leadership styles into four behaviour types on the basis of Task Behaviour and Relationship Behaviour. They termed these leadership behaviours as S1 to S4 in the leadership model. Figure 15.5 present the integration of different leadership styles with different maturity levels of the followers termed as Readiness Levels (R1 to R4). This model proposes the following four types of fit between the leadership style and the follower maturity.

(a) Delegating leadership behaviour is more appropriate when the followers are more mature (able and willing).

(b) Telling leadership behaviour is more appropriate when the followers are neither willing nor able.

(c) Selling leadership behaviour is more appropriate when the followers are unable but willing to do a task.

(d) Participating leadership behaviour is more appropriate when the followers are able and unwilling.

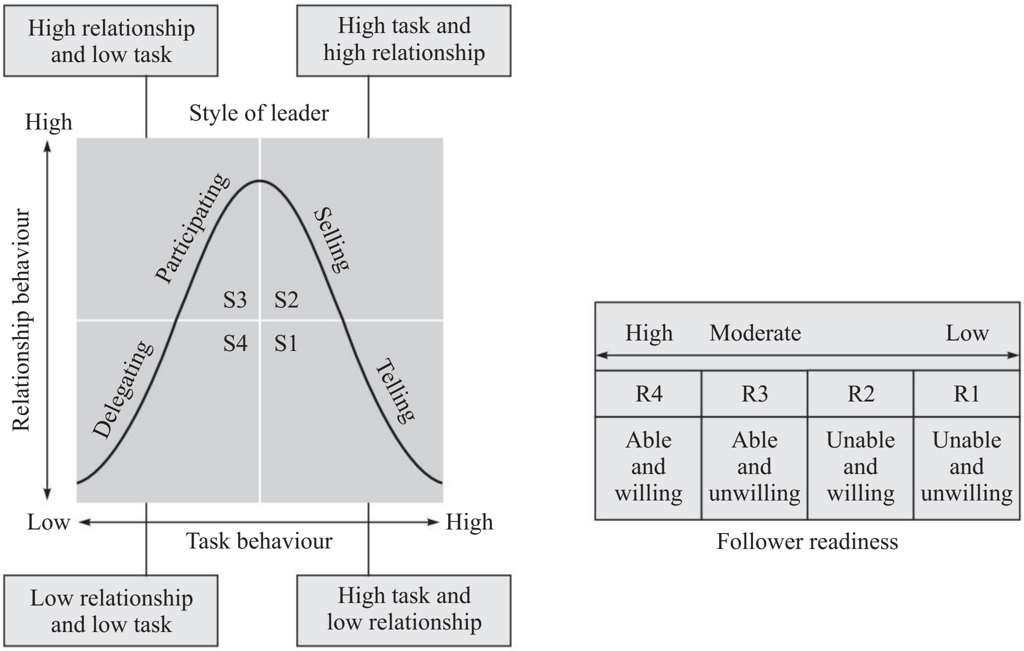


Figure 15.5 Situational Leadership Model

Source: Hershey, P. and Blanchard, K. (1982). Management of Organisational Behaviour: Utilising Human Resources, 4th edition, p. 152.

The Hershey-Blanchard theory observes that the leader-follower relationship is similar to the parent-child relationship. It proposes that the leader needs to gradually give up control over the follower as he/she becomes more responsible in the same way as parents give up control when their children grow up.

(d) ***Leader-Member Exchange Theory:*** The leader-member exchange (LMX) theory, developed by Dansereau, Cashman and Graen[38], acknowledges that the leaders often act very differently towards different members of their respective groups. The leaders develop a special relationship with a small group of their followers because of paucity of time. This small group of followers is referred to as ‘in-group’ and the other followers fall into the ‘out-group’.

The theory is not clear how the leader decides on the inclusion of a member in either ‘in-group’ or ‘out-group’. However, there is evidence that the members of the ‘in-group’ possess thoughts and personality traits similar to those of the leader or they deliver a higher performance as compared to the 'out-group' members. The members of the 'in-group' receive more of leader's trust and attention, and the leader interacts more with them.

(e) ***Path-Goal Theory:*** The path-goal theory, developed by Robert House[39], has been propounded by extracting key elements of motivational and leadership theories of other scholars. This theory proposes that the main function of a leader is to:

- provide the necessary information, help or support and other resources required by the followers to accomplish the set goals.
- clarify the path for the followers.
- set the goals with his/her followers.
- help the followers to find the best path.
- reduce the hindrances that may come in the way of the followers while striving to achieve the goals.

The path-goal theory is a modern theory of leadership. This theory approaches leadership as a sole behaviour which co-ordinates the efforts of people and stimulates them towards the achievement of their goal in a particular situation. This approach is called the system approach because it considers all the variables of leadership simultaneously: the leader, the followers, the situation, goals, leadership traits, the environment and the group's nature. According to this theory, the leader-follower relationship is contingent upon the following factors:

- The followers accept the behaviour of their leader to the extent they perceive it is a source of satisfaction.
- The leader's capacity to motivate the followers or subordinates depends on his/her ability to align the fulfilment of the subordinates' needs with the achievement of goals, and provide necessary guidance, support and rewards to the subordinates for the deliverance of effective performance.

The path-goal theory scores over other contingency theories on the basis of its assumption that leaders are flexible and can adopt different leadership styles in different situations.

The model of path-goal theory depicted in Figure 15.6 suggests the following two categories of situational factors that influence the outcome of the leadership behaviour:

1. ***Environmental Situational Factors***: These are the factors, which are not within the control of the subordinates (like/task, structure, formal authority system and the work group).
2. ***Subordinate Situational Factors:*** These include the characteristics of the subordinates (like locus of control, perceived ability and experience).

Robert House studied leadership in various situations and identified the following four types of leadership behaviours.

(a) **Directive leader:** This type of leader is a task-oriented person who specifies what is to be done, and how it is to be done, and lets the followers know what is expected of them. This type of leadership behaviour is more effective if the task to be performed by the subordinates is ambiguous or stressful. The subordinates with external locus of control prefer this leadership style. But this style proves to be ineffective in situations where the subordinates believe they have high competency and are quite experienced to perform the assigned task.

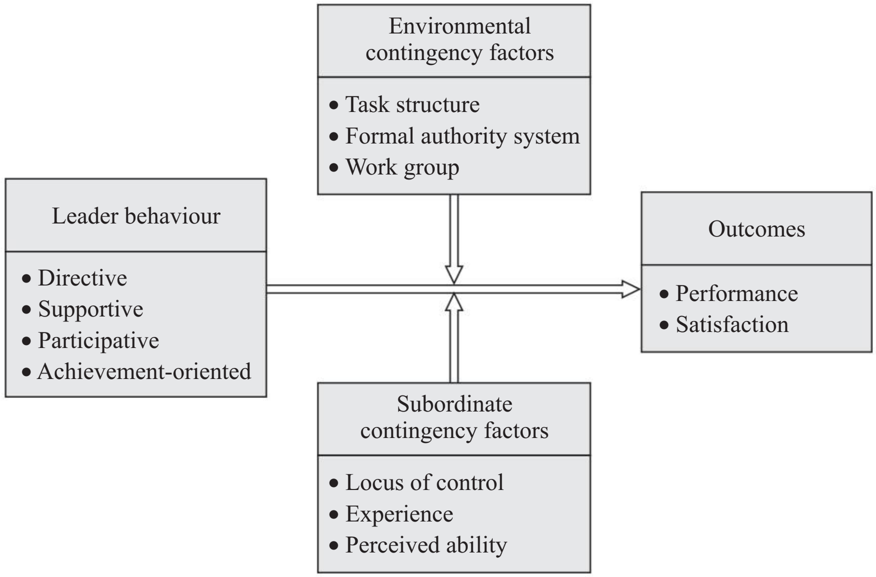


Figure 15.6 The Path-Goal Theory

(b) **Achievement-oriented leader**: This type of leader sets the challenging goals and expects that the followers should perform with the best of their ability.

(c) **Supportive leader:** He/she is a helpful and an adjusting individual who takes care of the needs and feelings of his/her followers. This leadership style delivers superior employee performance and higher employee satisfaction when the task to be performed by the subordinates is quite structured.

(d) **Participative leader**: These leaders consider the suggestions of their followers important and encourage them to take active part in decision-making. This style of leadership is more effective with the subordinates who have internal locus of control.

According to the path-goal theory, leaders have to portray a behaviour that is in accordance with the environmental situational factors and the characteristics of the followers. The leader's behaviour will be ineffective when it does not commensurate with the environmental situational factors and the characteristics of the followers.

(4) ***Followers Theory:*** This theory asserts that there can be no leader unless he/she has followers. It is the people's willingness to follow that makes a person their leader. If the followers in the form of a group accept a person as their leader, he/she is a leader, irrespective of his/her traits or behaviour. The followers theory is based on the assumption that people have certain basic needs, wants and aspirations and people follow someone only when they are convinced that following him/her would lead to the fulfilment of their needs and aspirations. If a person succeeds giving a hope to people that he/she would play a role in satisfying their basic needs or actually satisfies their needs, and people also want him/her to play that role, then he/she emerges as their leader.

LEADERSHIP MODEL

Figure 15.7 presents a model that describes leadership in action. It tries to align various constituents of leadership. At the outset the needs or goals of the people are responded to by giving hope by a potential leader. If people believe in the leader's promise and trust him/her, they are transformed into his/her followers and agree to abide by the word of their leader whose action they believe would help in the accomplishment of their goals.

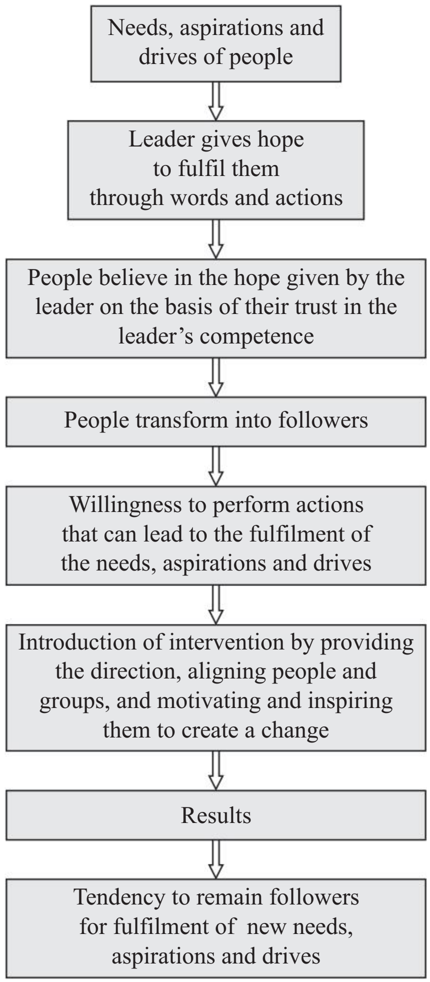


Figure 15.7 Leadership in Action

If the interventions introduced by the leader lead to the attainment of goals, then there is encouragement for people to remain his/her followers, otherwise a question mark arises on the credibility or trustworthiness of the leader, which adversely affects the probability of sustaining their leadership for a long period.

LEADERSHIP STYLES

Professor Renesis Likert[40] conducted extensive research on different styles of leadership. Based on his findings, he developed an important conceptual background for understanding the leadership behaviour. He proposed that leadership can be classified into the following four alternative styles.

- ***System–I—Autocratic (Exploitive-Authoritative) Leadership Style:*** The leaders with this leadership style are highly dictatorial and have little trust in their subordinates. They use fear and punishment as a tool to motivate people and rarely use rewards for the same. The autocratic leadership is based on the principle of centralisation of power, and the leaders with this leadership style have total authority to make decisions on their own. As a consequence, the communication in this form of leadership is mostly downward. This style of leadership is going out of use rapidly due to the organisations' preference for team-based working and participatory decision-making.

  Advantages: The autocratic leadership style has the following advantages.

  1. It provides strong motivation and reward for the leader.
  2. It can be useful in the time of crisis when faster action is warranted. Quick decision-making is guaranteed because a single person decides for the whole group.
  3. Less competent subordinate managers and employees can be employed because they have to just execute the orders of the boss.

  Disadvantages: The autocratic leadership style has the following disadvantages.

  1. People dislike the autocratic leadership style, especially if it is extreme and there is no motivation. Leaders with this style of leadership are generally poor motivators.
  2. Proper planning, decision-making or organising has little place because the autocratic leaders want others to follow what they perceive to be right.
  3. The full potential of the subordinates and their creative ideas cannot be put to use for the benefit of the organisation.
  4. Succession or career planning is threatened because there is limited scope for development of the subordinates into future leaders.

- ***System–II— Paternalistic (Benevolent-Authoritative) Leadership Style:*** Although the paternalistic leaders demonstrate care and compassion for the sentiments and feelings of their subordinates, yet what prevails finally is the will of the leader. Their tools of motivation include some rewards along with fear and punishment. A paternalistic leader is like a father to his subordinates. He/she patronises confidence and trust in his/her subordinates and at times seeks their opinion. However, there is limited delegation of decision-making, and the paternalisitic leaders exercise total control on policy-making. Therefore, the subordinates become dependent on them and do not grow professionally under them.
- ***System–III— Consultative Leadership Style:*** The consultative leaders have substantial but not complete confidence and trust in their subordinates. They listen to their ideas, examine them, but make the final decision themselves. Broad policy decisions might be taken by them but details are delegated. This feeling of the subordinates about making a contribution to the final decision increases their satisfaction and develops a sense of ownership. The communication flow between the

consultative leaders and their subordinates is both upward and downward, and rewards, accompanied with occasional punishment, are the primary tools of motivation used by these leaders.

- *System–IV— Participative Leadership Style:* The participative leaders have complete trust and confidence in their subordinates, and their ideas and opinions are sought frequently and used constructively. These leaders believe in the process of decentralisation of authority and permit their subordinates to participate in the decision-making process. Decision-making is encouraged at all levels. Therefore, the flow of communication is upward, downward and horizontal. Team-working is the primary basis for the execution of tasks, and individualism is discouraged. The basic aim of the participatory nature of leadership is to improve productivity and facilitate of objectives by creating an environment where the potential of the subordinates can be effectively translated into performance.

Likert observed that generally the managers who applied the participatory leadership style had the greatest success. Such leaders were more effective in setting goals and achieving them and were generally more productive. He ascribed their success mainly to the degree of participation of the subordinates and the extent to which their support was maintained.

Other Styles of Leadership

(a) ***Free-Rein Leadership Style:*** A free-rein leader believes in giving complete freedom to the subordinates. This leadership style is based on the principle, 'Those who lead the least lead the best'. In this style, the manager at the outset determines policies, programmes and limitations for action and after that leaves the entire process to the subordinates. This type of leadership style is suitable only in the situations where the leader has competent and committed subordinates to whom he/she can provide autonomy to make and execute decisions. This helps the subordinates develop themselves as future leaders.

Advantages: The free-rein leadership style has the following advantages.

1. It enhances job satisfaction of the subordinates.
2. It increases the morale of the subordinates.
3. There is a good scope for the development of the subordinates.
4. The potential of the subordinates can be optimally utilised.

Disadvantages: The disadvantages of the free-rein leadership style are:

1. The subordinates do not get the guidance and support of their leader.
2. It ignores the leader's contribution as if he/she has done almost nothing.

(b) ***Relational Leadership Style:*** This leadership style is employed more often in non-government organisations (NGOs) as well as non-profit organisations. The display of relational leadership helps the leader develop a web of relationships inside and outside the organisation with different stakeholders in order to implement societal programmes effectively. In order to perform the tasks that are associated with social change, charity, voluntary action, etc., diplomacy and persuasion are often required, which can be handled in a better manner by a leader with good relational skills.

Mander[41] (2002) argued that the legitimacy of a leader in the development sector is much more important because his entire operational model is based on trust. His/her legitimacy can be derived from the following characteristics.

(a) Social commitment and empathy.
(b) Strength of character and integrity by following ethical practices.
(c) Active beliefs in justice and humanism and uncompromising stand against injustice.
(d) Leading by example 'by being the change that one wishes to see in the world'.
(e) Capacity for innovation to facilitate creative problem-solving for overcoming the unjust and extremely difficult circumstances that poor and marginalised people face.
(f) Desire to choose to walk on a radically new road. Resolute courage and convictions to stand alone, as a 'majority of one' if necessary, against all the forces in the world.
(g) Detachment from worldly pursuits.

(c) ***Narcissist Leaders:*** Larger-than-life or charismatic leaders of the corporate world resemble the personality type that Sigmund Freud termed as 'narcissistic'. Freud named the type after the mythical figure Narcissus, who died because of his pathological preoccupation with himself. People of this type impress others as being 'personalities'. They are specially suited to take on the role of leaders by supporting others, and to give a fresh stimulus to cultural development or damage the established state of affairs[42].

Leaders like Jack Welch and George Soros are examples of productive narcissists. They are gifted and creative strategists who see the big picture and find meaning in the risky challenge of changing the world and leaving behind a legacy. People look towards productive narcissists in times of great transition because they have the audacity to push through the massive transformations. But narcissism can turn unproductive when narcissists become unrealistic dreamers.

(d) ***Marketing Personality:*** Erich Fromm[43], a renowned German psychoanalyst, proposed a personality type, which he termed as 'Marketing Personality'. The individuals with this personality type have a strong desire to be liked and valued and become exactly like the people around them or like the people they are expected to be.

SITUATIONAL ASPECT OF LEADERSHIP

A wide continuum of leadership styles is practised by different types of managers ranging from highly autocratic to totally follower-centred. The leadership style that is more likely to be effective in an organisation depends upon the following factors:

- Organisational value system and traditions.
- Stage of evolution of an organisation.
- Nature of the task performed by the organisation and job profile of the subordinates.
- Knowledge, experience, competence and level of tolerance for ambiguity of the subordinates.
- Willingness of the subordinates to assume responsibility.
- Pressures of time and urgency.
- Personality and value system of a leader.

Ideal fits between different leadership styles and different situations are described below.

- The participative style may not prove to be that effective in times of emergency. The autocratic style might be more effective in a crisis situation which requires tough decisions to be taken with a sense of urgency.

- The participative and consultative leadership styles are likely to produce better results if the manager is leading a team of scientists. On the other hand, autocratic handling of a group of scientists involved in experiments might lead to a revolt.
- Quick and fast decision-making are essential for a new enterprise in its founding years. At that time an understanding-autocrat leader is required.
- The benevolent-authoritative style is more effective in, a situation that requiries a turn around when a dying organisation is to be resurrected. Tough decisions, like closure of plants, massive lay-offs and reductions, have to be taken at this stage. The participative style becomes possible only after achieving a measure of stability and recording profits.
- According to Joyce Jenkins[44], leaders in non-government organisations (NGOs) as well as non-profit organisations need to display relational leadership because they have to develop a web of relationships inside and outside the organisation with different stakeholders in order to be effective. To perform these tasks, diplomacy and persuasion are often required, which can be handled by a leader with good relational skills.

PRINCIPLES OF CORPORATE LEADERSHIP

The corporate leadership is a specialised form of leadership. Given below are select principles on which the corporate leadership can be based[45].

- A corporate leader must strive to be the best at everything he/she does because then his/her followers will be encouraged or forced to follow suit.
- The corporate leaders should not held their followers in awe but encourage them to challenge one another's standards and in the process raise their performance level. The corporate leaders should not always act as CEOs or heads when they work shoulder to shoulder with their people. On some occasions they need to take part in operations and show people, by example, the new ways of doing their jobs. True leaders have people working not under but with them. They not only sit with their people to supervise what they are doing or what they have done, but also contribute like another member of the team.
- Effective corporate leaders earn their subordinates' respect and avoid using formal authority that is bestowed on them. Azeem Premji, Chairman, Wipro, is a champion of integrity. He takes the stairs to reach his spartan office on the 10th floor of a Bangalore high-rise building on most days. He often faced power blackouts and official harassment due to his principle of not paying bribe. But, he withstood all the hardships and earned the respect of one and all. Unusual for a family firm like Wipro, neither Premji's two sons nor his relatives work there. He avoids five-star hotels, travels economy and shuns publicity[46].
- The corporate leaders need to remain business-minded and influence others to believe in the need for business success. They need to examine whether any additional investment will add more value to the organisation than its cost.

Functions of Corporate Leadership

Various functions which are usually performed by the present-day corporate leaders are summed up below.

(a) Formulate vision, mission and goals for the organisation/group.
(b) Take strategically important decisions on behalf and for the organisation/group.
(c) Inspire and motivate the members of their group to work for the realisation of organisational or group vision and goals by aligning them with the fulfilment of individual needs of the members. Dipak Jain[47], Dean, Kellog School, highlights that the soul of leadership is the ability to motivate others to excel. The art of leadership includes investing in the people around, calling upon their skills and their ideas. In this manner a leader creates a challenging and nurturing environment that enables others to develop their fullest potential by participating fully in the life of the organisation.
(d) Lead from the front to demonstrate the importance of the execution of different tasks for accomplishing the group goals and objectives.
(e) Represent the organisation/group to the outside world.
(f) Introduce changes in the organisation from time to time to bring it in tune with the changes in the external environment.
(g) The primary job of the corporate leadership is to see what is good for the organisation and what is good for the people for whom one is working, and then go ahead to create something for their well-being[48].

FORMS OF BUSINESS LEADERSHIP

Different forms of business leadership have been described below.

Transformational Leadership

James McGregor Burns[49] (1978) introduced the concept of transformational leadership as a process in which 'leaders and followers help each other to advance to a higher level of morale and motivation'. According to Burns, the transformational leadership creates change in the life of people and organisations by redesigning their perceptions and values, and changing their expectations and aspirations. The followers of a transformational leader feel trust, admiration, loyalty and respect for him/her and they usually perform more than the initial expectations.

Transforming leadership occurs when leaders and followers raise one another to higher levels of motivation and morality…transforming leadership raises the level of human conduct and ethical aspirations of both the leader and the led and, thus, has a transforming effect on both[50]. Kumar Mangalam Birla, Chairman, Aditya Vikram Birla Group defines transformational leadership as leadership in its highest form, as it transcends the barriers of hierarchies, authority, power, as well as, formal and informal systems of reward and recognition.

Constituents of Transformational Leadership Bernard M. Bass[51] (1985) described how the following four elements of the transformational leadership determine the ability of transformational leaders to influence their followers.

1. ***Individualised Consideration:*** A leader at the lower end of the transformational leadership continuum attends to each follower's needs, and acts as a mentor or coach to the follower. The leader keeps communication open, gives empathy and support, and places challenges before the follower. He/she also makes an effort to recognise, respect and celebrate the contribution that each

follower makes to the team. This creates in the follower an intrinsic motivation for his/her task and an aspiration for self-development.

2. ***Intellectual Stimulation:*** The transformational leaders take risks and solicit the followers' ideas to challenge assumptions. This stimulates creativity in their followers. As a result, the followers ask questions, think deeply about things and figure out better ways to execute their tasks. The transformational leaders nurture and develop the subordinates who think independently.
3. ***Inspirational Motivation:*** The transformational leaders provide meaning for the task at hand by articulating a vision that is appealing and inspiring to the followers. This sense of purpose provides the energy that motivates the followers to realise the vision by attaining higher standards of performance. The visionary aspect of leadership is supported by effective communication skills that make the message very powerful. As a result the followers become self-motivated to invest more time and effort in their tasks.
4. ***Role and identification model:*** This element of transformational leadership creates in the followers an enthusiasm for the mission and makes them feel proud about it. This enhances their performance capabilities. They internalise the attitudes and goals and act with a motivated 'spirit' even when the leader is not around.

Implications of Transformational Leadership for Managers Yukl[52] (1994) has provided the following suggestions for development of transformational leadership capabilities in manager.

1. Develop a challenging and attractive vision together with the employees so that they feel a sense of ownership for the vision and then give their best to attain it. The leaders should express confidence, decisiveness and optimism about the vision and its implementation.
2. Develop an appropriate strategy for the achievement of the vision.
3. Realise the vision by implementing the strategy into small planned steps resulting in small successes leading to the path of its full implementation.

Transformational Leadership: A Critical Analysis In spite of the great contribution of the transformational leaders in bringing about significant transformation in an organisation or in realisation of difficult goals through a self-motivated effort, there are some critical issues concerning their functioning.

(i) The transformational leaders tend to see the big picture, not the details, which can lead to problems during implementation of a plan. If they do not have people to take care of the executional information, then they might fail.

(ii) The transformational leaders seek to transform. But when the organisation does not need transformation and people are also happy with the status quo, a transformational leader may feel frustrated.

Ethical Leadership

The ethical leadership is about leading in such a manner that respects the rights and dignity of others. It focuses on how the leaders use their power in the decisions they make and the actions they engage in, and in influencing others[53]. The ethical leadership involves having the courage to display ethical behaviour in all parts of life for the common good, even when there is pressure to compromise or rationalise. The ethical leadership can be explained on the basis of the following four interrelated concepts:

- **Shared Purpose**: The ethical leader always thinks and acts keeping the organisational purpose firmly in his/her mind.
- **Knowledge and Learning to make informed choice**: The ethical leader has the knowledge to judge and act prudently.
- **Authority with Responsibility**: The ethical leaders not only utilise the power to make decisions and act, but they also recognise that all those involved and affected must have the authority to contribute towards the shared purpose of the organisation.
- **Trust built on Mutual Growth**: The ethical leader inspires trust throughout the organisation and its environment.

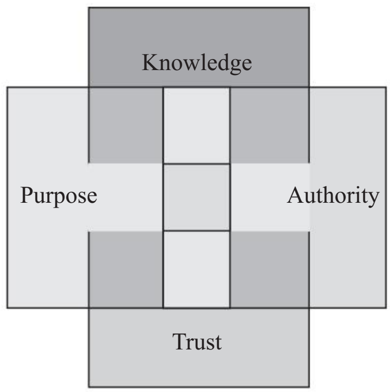


Figure 15.8 Constituents of Ethical Leadership

It is often wrongly perceived that the ethical leadership is 'soft' leadership. However, being an ethical leader means applying the right amount of authority in each situation. The choice of intervention depends on the organisation culture and the pressures in its environment. If the culture facilitates learning and growth in its environment, the leadership may be largely inspirational. Persuasion and facilitation are appropriate if the capable and committed members are unsure of their own capabilities. Manipulation and coercion can be appropriate when the organisation culture does not support learning and growth, and pressures are intense. Thus, the style of ethical leadership varies with the organisation culture and the urgency of its situation in the environment.

Characteristics of Ethical leaders

- The ethical leaders demonstrate a level of integrity, which is important for stimulating a sense of leader trustworthiness[54].
- They motivate the followers to accept their vision[55].
- They are people-oriented, and are also aware of the impact of their decisions on others[56].
- They use their power to serve the greater good instead of serving their personal interests.
- The ethical leaders motivate their followers to put the needs or interests of the group ahead of their own by engaging others in an intellectual and emotional commitment between leaders and followers in pursuit of a common goal[57].

- The ethical leaders encourage and empower their followers to have a sense of personal competence that allows them to be self-sufficient.
- The ethical leadership consists of communicating complete and accurate information, where there is a personal, professional, ethical or legal obligation to do so (McQueeney[58], 2006).

Importance of Ethical Leadership Ethics and ethical leadership are extremely important in the present times when corporate governance is gaining increasing importance and the media and government regulators are displaying an investigative approach towards business entities. The following points highlight the importance of the leadership.

(a) While taking decisions, the business leaders must not only consider their benefits but also think about their effects on people at large (Stansbury[59], 2009).
(b) By practising ethics, a leader gains the respect and admiration of other employees.
(c) The ethical leaders feel self-satisfaction because they know they are doing the right thing.
(d) The ethical leadership balances the achievement of the realistic attainable organisational objectives with the development of the organisation culture over a period of time.

Models of Ethical Leadership Given below are some models for ethical management and leadership in the 21st century.

(a) ***P4 (PPPP) Model of Ethical Leadership:*** This model, created by Alan Chapman[60] in 2006, is not a process or technique to practise ethical leadership, but it represents the character of a good ethical leader. The fours Ps refer to Purpose, People, Planet and Probity (from the Latin word 'probus', meaning good).

This model advocates the attainment of an optimal balance between the organisational purpose and the needs and feelings of people (employees, customers, suppliers, local communities, stakeholders, etc.) by giving a proper consideration for the planet (sustainability, environment, wildlife, natural resources, heritage, 'fair trade', other cultures and societies, etc.) and acting with probity (love, integrity, compassion, honesty and truth) at all times. This leads to the creation of harmony among the potentially conflicting objectives so that the overall performance is sustainable, ethical and successful.

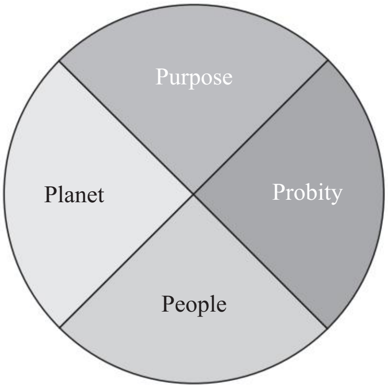


Figure 15.9 P4 (PPPP) Model of Ethical Leadership

(b) ***The 4-V Model of Ethical Leadership:*** This model, created by Dr. Bill Grace[61], is a framework that aligns the internal (beliefs and values) with the external (behaviours and actions) for the purpose of advancing the common good. The steps in the implementation of this model are described below.

- **Step I— Values:** The ethical leadership begins with an understanding of and commitment to an individual's core values. The ethical leaders need to undertake an inner journey of integrity to first discover the core values with which they identify themselves.
- **Step II— Vision:** Vision is the ability to figure out a real picture of what ought to be, particularly in service to others. The ethical leaders ask, 'Leadership for what purpose?' Their vision is to shape a future that is inclusive and enables all members of society to fulfil their needs and dreams and realise their potentials.

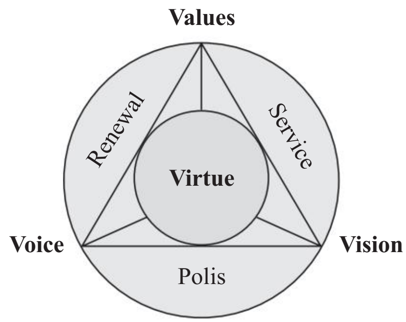


Figure 15.10 4-V Model of Ethical Leadership

- **Step III— Voice**: It is the process of articulating the vision to others in an authentic and convincing manner that animates and motivates them to action.
- **Step IV— Virtue**: It implies adopting a virtuous behaviour by striving to do what is right for the common good and thus developing a character of virtue.

(c) ***Servant Leadership:*** The general concept of servant leadership is ancient. Different scholars and spiritual writers have strongly advocated this virtuous principle. For example, Lao-Tzu in the 6th century BC in China stated: 'The highest type of ruler is one of whose existence the people are barely aware. Next comes one whom they love and praise. Next comes one whom they fear. Next comes one whom they despise and defy. The sage is self-effacing and scanty of words. When his task is accomplished and things have been completed, all the people say: 'We ourselves have achieved it[62]!' Chanakya wrote, in the 4th century B.C., in his book Arthashastra: 'The king [leader] is a paid servant and enjoys the resources of the state together with the people.'

Jesus Christ urged his followers to be servants first. He told his followers: 'Whoever wants to become great among you must be your servant, and whoever wants to be first must be your slave—just as the Son of Man did not come to be served, but to serve, and to give his life as a ransom for many[63].'

The term 'servant leadership' was coined by Robert K. Greenleaf[64] in 1970 when he articulated: 'The servant-leader is servant first… that person is sharply different from one who is leader first. The leader-first and the servant-first are two extreme types. Between them there are shadings and blends that are part of the infinite variety of human nature.'

The Center for Servant Leadership at the Pastoral Institute in Georgia defines servant leadership as a lifelong journey that includes discovery of one's self, a desire to serve others and a commitment to lead. Dr. Kent Keith[65] identifies seven key practices of servant leaders: self-awareness, listening, changing the pyramid, developing your colleagues, coaching not controlling, unleashing the energy and intelligence of others, and foresight.

The servant-leaders achieve results for their organisations by giving priority attention to the needs of their subordinates and colleagues. They focus on meeting the needs of people they lead in a selfless manner, and in the process build a sense of community among the group members. The servant-leaders are often seen as humble stewards of their organisation's resources (human, financial and physical). They would stand behind even an unpopular policy and willingly take the accompanying risk if they feel it is in the best interest of the group.

James Sipe and Don Frick[66] state that the servant-leaders are individuals of character, skilled communicators, compassionate collaborators, and systems thinkers. They put people first, use foresight and exercise moral authority. Larry Spears[67] identified the following ten characteristics of servant-leaders in the writings of Greenleaf: listening, empathy, healing, awareness, persuasion, conceptualisation, foresight, stewardship, commitment to the growth of others, and building community.

Advantages of Servant Leadership: The concept of servant leadership has been supported by noted management and leadership writers such as Ken Blanchard, Stephen Covey, Peter Senge, Margaret Wheatley and others. The servant-leaders are thought to be effective because of the following reasons:

(i) They develop the employees to bring out the best in them.
(ii) The needs of the followers are looked after in such a manner that they reach their full potential and perform at their best.
(iii) The followers deeply trust the servant-leaders because they perceive them to be selfless and non-domineering.
(iv) The servant-leaders think harder about how to respect value and motivate people reporting to them.

Servant Leadership: A Critical Analysis

1. This form of leadership creates an image of being slavish or compliant, which is not a very positive image. It is like moving from one extreme of autocracy to the other.
2. It is felt that the idea of the leader and the employee as partners might be more respectful and valuable than the idea of leaders as servants.
3. It appears to be a highly paternalistic and protective approach towards leadership because it makes more sense to consider the needs of the subordinates than to be a servant to them.
4. The servant-leaders are expected to give precedence to the needs of shareholders over those of employees.
5. Although the principles of servant leadership are admirable, yet the negative connotation of the image of servant is problematic and misleading. For example, selflessness is a great virtue, but it is possible without being a servant.

NATURE OF LEADERSHIP IN INDIAN ORGANISATIONS

The Indian society is a traditional society and accordingly the value system of Indian leaders is strongly influenced by the prevalence of the joint family system and the concept of Karta (Head of the Hindu Undivided Family) for many centuries. The head of family (Karta in case of the joint family) exercises complete control over all other members of the family. This importance and respect for power and authority has spread throughout the social system including business organisations.

The importance of giving immense authority and formal respect to the superiors was further reinforced by a millennium of foreign rule of the Sultanate dynasties, the Mughals and the British Raj wherein the Indian subordinates treated their bosses with great respect.

Although this trend of respect for the position of power is uniformly present throughout India, yet the leadership styles in the Indian business organisations vary with the form of the organisation. Broadly, the business leadership in the Indian context has been classified into the following three types:

- ***Leadership in Professionally Managed Organisations:*** In professionally managed organisations, owned by Indians or multinational companies, a significant degree of the participative approach is visible in the leadership style of the managers.
- ***Leadership in Public Sector Organisations:*** The bureaucratic style of leadership is more prevalent in government organisations because initially these organisations were managed by civil servants. The implications of this leadership style are: sharp differences in status, large power distance between superior and subordinate, adherence to procedures and rules and somewhat impersonal relationships.
- ***Leadership in Family Managed Organisations:*** The most prevalent style in family managed organisations is autocratic or benevolent authoritative. In these organisations, there is 'management by inheritance or management by chromosomes'. As a result, the sons and grandsons of entrepreneurs are automatically promoted without too much consideration for their competency or suitability. These organisations are highly centralised and family-oriented in their organisational structure, and authoritarian in their approach towards their employees.

The head of business is usually the head of the family. He/she adopts a paternalistic attitude towards his/her employees. In the initial stages of the organisational evolution, an authoritarian style is suitable but if the successors adopt the same style without any change or modification even after the significant growth of the organisation, the results may not be very impressive.

Right Leadership Style for Indian Managers

No single leadership style is always effective in all situations. This fact holds true in the Indian context as well. Entirely different leadership styles have led to the great success of different business organisations of India. It is interesting to note how some of the prominent Indian business leaders have led their organisations in their own unique ways. Let us have a look at the leaders of some prominent business houses of India.

- ***Dhirubhai Ambani, the late chairman of Reliance:*** A first-generation entrepreneur who built the largest company in the private sector, Dhirubhai Ambani believed in the entrepreneurial style of leadership with strong emphasis on high risk taking. He believed in hiring the best talent and then giving them required level of freedom to be creative and innovative. He left the management to managers and focused on monitoring the environment continuously.

Reliance's management model is based on initiative, empowerment, trust, and commitment to excellence—these fundamentals were instilled in the group from the philosophy and practice of Dhirubhai Ambani.

- ***Ratan Tata, Chief of the Tata Group:*** Though not very creative, Ratan Tata has a thorough professional approach towards leadership. He has a democratic approach towards leadership and management and delegates authority to the lowest possible levels.
- ***Narayana Murthy:*** Founder Chairman and Managing Director, Infosys, Narayana Murthy is highly respected, yet he believes in simple living (travels in economy class) and high thinking (strongly favours in creating a world-class organisation through shared vision and operational excellence) in his approach towards leadership.

  He is highly ethical, egalitarian, creative and innovative in his approach towards leadership. Infosys has been built on the principles of ethical leadership and the trust of employees. Narayana Murthy says, 'The trust of subordinates is the most important ingredient for successful leadership. To gain the trust of people, there is no more powerful leadership style than leadership by example. The world respects performance and action, not rhetoric. I have realised that if you want to look smarter, you must surround yourself with people smarter than you. Every employee must feel an inch taller when talking about the company.'

As the above examples show, different personalities have created world-class organisations through their unique leadership styles. Hence, we can conclude that the success of leadership is based on a large number of variables: industry, stage of evolution of organisation, nature of task and responsibility, time pressures, etc. along with the personality, value system and approach of the leader.

Factors Affecting Business Leadership in India in 21st Century

The leadership context in the Indian corporate sector has undergone significant transformation in the post-liberalization scenario. Certain factors that must be borne in mind by managers leading the Indian business organisations in the new millennium are described below.

- Employees in the present-day context are far more educated and aware than in the past.
- Employees have more job opportunities available with them than in the past.
- Employees have greater and varied expectations from the organisation and leadership and from the nature of work itself than in the past.
- There is greater professionalism on the part of employees and they expect the same from their managers and leaders.
- In a survey on the relations between white collar employees and their supervisors in 11 different organisations, only 3 supervisors out of a sample of 73 believed that subordinates can work without supervision, and the rest believed that subordinates can only work with supervision and have no sense of responsibility. (Punekar and Savur[68], 1969).
- Nitish De[69] (1974) in his empirical research found that though the Indian managers profess a belief in group-based participative or democratic decision-making, they have little faith in the capacity of their workers for taking initiative and responsibility.

In the Indian context, there is need for changing over to a more participative leadership style than the traditional autocratic and more authoritative style of leadership. The present-day scenario also calls for more sharing of information and trusting the team mates as a basic requirement for effective leadership.

Development of Leadership in an Organisation

Leadership is not required only at the top. In the modern-day business organisations, a conscious effort is being made to develop leadership competencies at all levels of management. Given below are some practices and strategies for developing leadership in the organisational context[70]:

- ***Appropriate Organisation Structure:*** To develop leadership, organisations need to create a supporting environment by combining centralised control with decentralised execution.
- ***Creation of Environment:*** Leadership is able to deliver better results in those organisations where the ground has been prepared in advance. For example, in the army, a significant amount of effort goes in creating an environment where leaders can deliver the desired results. Leaders need to create and develop organisational systems that can support the exercise and cultivation of leadership at both personal and organisational levels.
- ***Well-designed Orientation Programme at Induction Stage:*** One of the key responsibilities of the leader for building the leadership culture in his/her organisation is to educate the new recruits. An orientation session should be held by the leader for a new employee to clarify his/her personal style, his/her roles and responsibilities in the organisation, and the vision and shared objectives of the organisation. This sensitises the new employee about the leadership scenario in the organisation and enables him/her to align himself/herself with the organisation value system.
- ***Leadership Development Practices:*** Leaders can be groomed and developed in an organisational setting by implementing the following leadership development practices.
  - Formal education and leadership training
  - Informal mentoring
  - Systematic job rotation to challenge the managers in appropriate ways to broaden their skills and knowledge base. This enables them to take on leadership opportunities in the future.
- ***Encouraging Self-analysis:*** Self-analysis can enable a leader to know his/her strengths and weaknesses. Leaders can use their strength-weakness profile appropriately to project a desired image to their subordinates. A leader who is always playing to his or her strengths is in a much better position than the one who is playing to his weaknesses because a leader can't inspire much confidence in others by employing weaknesses.

LEADERSHIP: A CRITICAL ANALYSIS

James R. Meindl[71] and his colleagues (2002) concluded that the generally accepted positive impact of leadership on desirable organisational outcomes cannot be supported by a normal scientific enquiry. They argued that the idea of a leader is a product of social construction that has been elevated to a higher status than can be justified. By attributing to leaders the causality for most positive outcomes that cannot be easily explained by other factors and by attributing to the environment the causality for negative outcomes, the protagonists of the concept of leadership give it a significance that is inappropriate.

Abhay Ojha[72] (2002), Professor of Organisation Behaviour at IIM (Bangalore), highlights that many persons who are adored as great leaders are actually normal people who have been at the right place at the right time. He asserted that although leaders like Jack Welch have some qualities that make them a better CEO than many others, yet the demi-god status that they are accorded is actually a product of the social construction process, where leaders and leadership are used to explain positive outcomes. He stressed that the failure of GE to successfully merge with Honeywell is not attributed by people to the inability of Welch but to the attitude of regulators in the European Union. If success as well as failure both are equally attributed to a leader, then their image as a leader might be closer to the reality.

Therefore, attributing the entire success of an organisation only to its leadership, like it has been done in the case of N.R. Narayana Murthy or Dhirubhai Ambani, is a bit unfair for a large number of employees of Infosys and Reliance Industries who have definitely contributed to the success of their groups.

Ojha emphasized that the propensity of people to accept heroes without question makes them conjure up images of greatness that may sometimes be quite incompatible with reality. It must be remembered that although the influence of leaders is likely to be much higher than that of others in an organisation, yet their contributions often pale in comparison to the collective contributions of the rest of the organisation.

Ojha further iterates that the most disturbing aspect of the strong emphasis laid on the phenomenon of leadership is that it often makes others in organisations develop a sense of helplessness. This sense of helplessness reduces the number and type of initiatives taken by ordinary people. If people develop confidence in themselves rather than outrightly accepting the myths surrounding the 'extraordinary abilities' possessed by successful business leaders, a greater dynamism could be seen among the different levels of employees of an organisation.

FOLLOWERSHIP

An individual cannot become a leader if there are no followers. Therefore, understanding of leadership is incomplete without knowing what is followership or 'why people follow leaders?' For leaders to lead, they need not only have exceptional talent but also the ability to attract followers. According to Rajat Gupta[73], Managing Director, Mckinsey (worldwide), in the ultimate analysis, one can never become a leader by the dint of his/her own skills; other people have to line up behind him/her.

Leaders need to attract followers by the pull of their personality, thoughts and actions. The nature and quantum of followers determine the level of success or effectiveness of a leader.

Why would anyone follow a Leader?

It has been observed that the followers are as powerfully driven to follow as the leaders are to lead. Macooby[74] (2004) has grouped the followers' motivations to follow into the following two categories.

- ***Rational Motives:*** The rational motives involve hope of gaining money, status, power, or entry into a meaningful organisation by following a great leader and fear that they will miss out the opportunity if they don't.
- ***Irrational Motives:*** Sigmund Freud, the founder of psychoanalysis, provided an explanation of a follower's unconscious motivation to follow a leader. He found that a good number of his pa-

tients followed him blindly. He realised that his patients' idolisation of him couldn't be traced to his personal qualities, but people were relating to him as if he were some important person from their past. People were transferring experiences and emotions from their past relationships onto the present ones.

The reason why people follow a leader even when things are getting tough is trust. Therefore, it becomes imperative for a leader to learn how to build and cultivate trust. The tools, virtues and traits that leaders must live by and espouse to build trust are[75]: competence, character, courage, empathy, loyalty, sacrifice and selflessness.

Conclusion: Leadership is extremely critical. Too many organisations have failed to achieve optimum success because they sacrificed leadership while adopting a managerial approach[76]. Leaders have to demonstrate integrity, provide meaning, generate trust and communicate values. They must demonstrate love for their work and their people, warmth, empathy and inclusiveness. Therefore, leadership is an integrated phenomenon which is dependent on a large number of factors that individuals need to practise and evolve over their lifetime.

Points to Remember

1. Leadership is the art of influencing people so that they strive willingly and enthusiastically towards the achievement of group goals.
2. Theories of leadership are classified as the Traits Theory, the Behavioural Theories, the Situational or Contingency Theories and the Followers Theory.
3. The traits theory is built upon the presumption to identify the traits that are associated with effective leadership.
4. The behavioural theories of leadership attempt to examine different behaviours that are associated with leadership.
5. According to the situational approach to leadership, an effective leadership style is specific and relative to the situations in which it occurs.
6. Leadership can be classified into different alternative styles: Autocratic (Exploitive-Authoritative) Leadership Style, Paternalistic (Benevolent-Authoritative) Leadership Style, Consultative Leadership Style, Participative Leadership Style, Free-Rein Leadership Style, Employee-oriented Leadership Style, Production or Task-oriented Leadership Style, Relational Leadership Style, Narcissist Leaders, Marketing Personality.
7. Leaders in Non-government organisations (NGOs) as well as non-profit organisations need to display relational leadership.
8. The terms 'manager' and 'leader' are often treated as synonyms and sometimes used interchangeably, but there are subtle and significant differences between the two.
9. It has been observed that the followers are as powerfully driven to follow as the leaders are to lead.
10. The followers' motivations to follow fall into the two categories: Rational Motives and Irrational Motives.

Review/Discussion Questions

1. Define leadership and highlight the importance of leadership.
2. Explain the characteristics of leadership.
3. Outline the principles and functions of corporate leadership.
4. Explain in detail the various forms of business leadership.
5. Explain the importance of transformational leadership.
6. What is the relevance and applicability of ethical leadership in the present-day business context?
7. Critically evaluate the concept of servant leadership.
8. What factors are affecting business leadership in India in 21st century?
9. Explain in detail the different theories of leadership.
10. What is the contribution of Ohio State Studies and the University of Michigan Studies in development of literature in the domain of leadership?
11. Critically analyse the role of the managerial grid in the leadership literature.
12. Describe different situational or contingency theories of leadership.
13. Explain different leadership styles by highlighting their merits and demerits.
14. Discuss the applicability of different leadership styles in Indian organisations and suggest the right leadership style for Indian managers.
15. Discuss different practices and strategies to develop leadership in the organisational context.
16. Present a critical analysis of the phenomenon of leadership.
17. What are the essential characteristics of a leader?
18. Differentiate and distinguish between a leader and a manager.
19. What is followership and what are the reasons that make people follow a leader?

Field Exercises/Class Exercises/Group Projects

1. Students should be asked to write in their notebook the name of two or three students in their class whom they consider to be leaders. Then they should support their choice by providing appropriate reasons that why particular student has been chosen to be a leader. This information can be collected by the teacher and then shared with those who were chosen as leaders in an exclusive session with them.
2. The class can be divided into groups, each group comprising about seven to eight students. Each group can be given a group task of such nature that one person emerges a leader unconsciously while executing the task. The group should be asked to identify who emerged as their leader during the execution of the task? Why he/she could emerge as their leader? They should also outline the personality traits of that particular student. Some students might emerge as happy followers. They should be asked why they chose to behave as followers. Their personality profile should also be developed by the group members.
3. Students should be asked to identify one leader whom they consider to be their role model. Then they should provide adequate reasons and instances which made that person their role model.
4. Students can be asked to identify one corporate leader whom they consider to be a great business leader. Then they should provide adequate reasons and instances which made that person their model of a great business leader.

On the Internet

1. Visit http://www.workshopexercises.com/Leadership_continued.htm#L9 to undertake a leadership activity that would enable the participants to write a personal statement of leadership.
2. Visit http://www.workshopexercises.com/Leadership_continued.htm#L11 to undertake a leadership activity that would enable the participants to understand the leadership values that motivate leaders.
3. Log on to http://www.workshopexercises.com/Leadership_continued.htm#L12 to learn how to build a leadership skills development plan.

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Case Study

Indian Pharma Industry at Crossroads: A Leadership Challenge

India and China are emerging as growth drivers for the global drug companies. Large pharma MNCs, that were initially looking at India primarily for cheaper manufacturing (on their own or through outsourcing), now want to target these markets with a more focused approach.

Indian Pharmaceuticals Market

As per ORG-IMS, the Indian pharma market has grown by a compounded annual rate of 14% since 2005, whereas the leading markets of the world, like the US, are expecting a negative or flat rate of growth for the near future. McKinsey report of 2007 forecast that the Indian pharma industry will emerge as No. 10 globally in terms of size at $20 billion in 2015. This is predicted because of rising income, health insurance and improved healthcare delivery. Besides, India, which has a high rate of infectious diseases, is also registering a substantial rise in chronic or lifestyle diseases.

Due to the above mentioned factors, India is emerging as a commercially attractive market for MNCs, which earlier perceived the country as a base for outsourcing, drug trials, research and manufacturing. According to ORG-IMS, new products introduced by pharma MNCs increased by 44%, whereas those launched by Indian companies fell by 16%.

Till the recent past (before 2008), the Indian pharmaceutical market was dominated by local drug companies. The top three pharma companies in India in terms of sales and market share were the Indian home-grown companies, namely, Ranbaxy, Cipla and Dr Reddy's. The affiliates of MNCs were dwarfed by the Indian companies in India, leaving a few exceptions such as GSK. An important point of concern for major global pharma companies is that out of the seven emerging markets, prices in India are the lowest. This creates a bit of disincentive to enter the Indian market because of lower return on investment (RoI).

The low prices in the Indian pharma market are attributed to the Indian pharmaceutical companies' love for reverse engineering on the molecules already developed by global pharma companies. They are not into the discovery of new molecules. However, a notable exception is of Dr Reddy's which made significant investment in high-risk and high-return new molecule discovery. Even Dr Reddy's in its 14-year endeavour could produce only one drug balaglita zone for type 2 diabetes, which is still in phase-3 or advanced human trials. The drug's future is still uncertain and progress is also slow.

Trends affecting Indian Pharmaceutical Market

The Indian pharmaceutical industry is going through a significant transformation. Major positive and negative developments with regard to the Indian pharmaceutical market are described below.

A. Positive Developments

(a) A large number of leading drugs (including some blockbuster drugs through which MNC companies were making billions of dollars) are going to be off-patented in the near future, thus paving their way to the generic categories. It is estimated that drugs totalling US$ 100 billion in sales, patented to large drug firms, will go off-patent by 2015. This would offer a great opportunity for the Indian pharmaceutical companies that have a key competitive advantage for manufacturing generics.

(b) India that is becoming increasingly prosperous is willing to pay more for quality healthcare than in the past.

(c) Health insurance solutions are now being marketed aggressively in collaboration with hospitals. An increasing acceptance of health insurance by consumers augurs well for the pharma companies. This trend will increase the overall markets for the drug companies as was witnessed in the developed world.

B. Negative Developments

(a) Following the amendment of the Indian Patent Act in 2005, product patents have been given more importance than process patents. A major implication of this development is that the Indian pharmaceutical companies that were doing the reverse engineering of the patented drugs (to make the same molecule through a different process) cannot do the same in accordance with the provisions of the amended Indian Patent Act. This has led to a situation where lesser number of drugs are available for copying and there is increased competition. Consequently, generic markets would also get more competitive in the developed world, making it tough for the Indian companies that have expanded their capacities to cater to those markets. In the emerging scenario, some Indian drug firms would also be available for acquisition.

(b) As per IMS health forecast, the US drug market is expected to contract by 1-2 per cent in 2009— first time in 50 years— because of the economic slowdown and the expiry of patents of some blockbuster drugs. (The market for a drug falls significantly in the US market when a drug is off-patented.) It is expected that the growth is going to be flat till 2013. This is likely to intensify competition in the US drug market for the global pharma majors as well as the Indian companies.

    This change in the market dynamics would encourage the global pharma majors, like Novartis, Pfizer and Merck, to look at the markets like India where the industry is going at a decent rate of growth. For example, Merck's Indian affiliate, which is currently ranked 119 by market share, want to be in top 5 by 2015.

    The Indian pharma companies, that had gone for major investment in manufacturing facilities, product development, regulatory affair teams and capacity expansion with hopes of entering the US market, have realised that they lack resources and capabilities to establish themselves in the highly competitive western markets all by themselves. They might not have a smooth sailing that they might have initially expected.

(c) The Indian pharma companies are highly leveraged because of huge borrowings for upgradations, expansion and entry into hospital and healthcare industry by some leading players. This happened due to the following factors.
   - Desire to realise the potential for tremendous growth.
   - Availability of easy money that led to rapid expansion on the basis of borrowed funds.

Now when the market growth has reduced in the developed world, competition has enhanced in the domestic market. Besides, with stock markets not favouring raising of cheap money, there is a huge pressure on the Indian pharma companies regarding repayment of their borrowings.

Significant Happenings in the Indian Pharma Industry in the Recent Past

Some recent events of great significance in the pharma industry in Indian context are listed below.

(a) In 2008, Daiichi Sankyo emerged as India's top drug maker overnight by acquiring Ranbaxy labs for Rs 10,000 crore.

(b) Pfizer's buyout of Wyeth will help it increase its market position in India from number 12th to 8th in terms of market share.

(c) France's Merieux Alliance acquired Shantha Biotech.

(d) In June 2009, Pfizer's global animal health unit agreed to buy Vetnex, the third largest veterinary drug company in India.

(e) In June 2009, Dr Reddy's restructured its drug discovery operations by relocating the team involved in a complete new drug discovery into Aurigene, a subsidiary established to undertake outsourced research for global pharma majors for taking drugs to a point where it could be tested on humans.

(f) A good number of promoters of pharma companies, like Ranbaxy, Wockhardt, etc., are moving from manufacturing to service-based healthcare industry.

(g) Affiliates of MNCs, like Pfizer, AstraZeneca and Merck, are entering into the manufacturing of generic products that were originally not developed by their parent companies.

Strategies Adopted by the MNC Pharma Companies in the Indian Market

Some of the strategies adopted by the MNC pharma companies in the changed scenario are as follows:

(a) Acquisition of the Indian pharma companies.

(b) Expansion of the portfolio by launching non-patented molecules and registering presence in areas other than their niche segments. This trend is based on the assumption that the patented drugs would constitute only 10% of the market (McKinsey Report).

(c) Development of branded generic products.

(d) Extending reach to tier-2 towns with a population under 1,00,000 or even rural areas. These markets were earlier not being targeted aggressively by the pharma MNCs. For example, Novartis India recently launched its rural marketing campaign, 'Arogya Parivar', by organising camps in rural areas to create awareness about its products. It came out with economy packs of medicine for diarrhoea and mother-child nutrition products at affordable prices.

(e) Working with the governments for popularising vaccines for critical diseases.

(f) Co-marketing tie-ups for emerging markets. Novartis tied up with the Indian firm USV to market its patented drug under the brand name, Jalra, because Novartis lacks strong diabetes franchise in India.

(g) Instituting alliances with the Indian companies. For example, Pfizer entered into a licensing management alliance with Aurobindo Pharma, Coral Drugs and Claris Lifesciences to sell its generic products in those developed and emerging markets which have not been tapped by it.

The Road Ahead

The Indian pharmaceuticals industry is going through a significant transformation phase. The increasing interest of global pharma majors poses a threat as well potential opportunity for the Indian pharmaceutical companies. In view of the mixed signals of opportunities and threats, and MNCs' strategies, the leadership of the Indian pharma companies is faced with serious questions about their future.

Different companies or their leadership are responding differently to the emerging scenario. If the promoters of Ranbaxy, Shantha Biotech and Wyeth sold their holdings to Daiichi Sankyo, Dr. Reddy's decided to wind up their new molecule discovery programme to focus on differentiated formulations or improvements to known medicines. In a way, Dr. Reddy's has departed from its 15-year-old discovery research model, and due to the consequent restructuring the company will save $10-15 million in the fiscal 2011. Now the aim of Dr. Reddy's is to reduce all the high-risk high-return R&D, and focus on 'greater definitiveness'.

Some other Indian companies are adopting the strategy of 'if you can't beat them, join them.' UK's GSK struck an alliance with Dr. Reddy's in June 2009 to market offpatent branded generics to be supplied by the Indian company. Dr. Reddy's will gradually pull out of very small distributor-driven markets with contribution of less than 1% to the top line.

Questions for Discussion and Analysis

1. What are your views about the quality of leadership displayed by leading Indian pharmaceutical companies?
2. Do you agree or disagree with the recent decisions of the top leadership of the Indian pharma companies, like Ranbaxy, Dr Reddy's, etc.?
3. What strategic position need be taken by the leadership of the Indian pharma industry in the face of the changing dynamics of Indian and global pharma markets?

Source: Kamath, G. and Bisserbe, N. (2009). 'Serious about India', Businessworld, June 22, 2009, pp. 32-36.

Chapter 16

Communicating Effectively

Communication problems are experienced more often than anyone would like to admit.

—**Anonymous**

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand communication, communication process and the barriers to communication
- examine the myths and the corresponding reality about effective communication
- know what makes communication so difficult and how one can get the message across
- know how to become a better listener
- explore different dimensions of effective communication and the role of personality in developing communication skills
- comprehend communication formats for weekly and monthly reports

INTRODUCTION

No amount of words can express the importance of communication. The following two quotes of two legendary management professionals clearly present the criticality and the challenge that is associated with the phenomenon of communication.

In very large organisations the ability to express oneself is perhaps the most important of all the skills a person can possess. —**Peter F. Drucker**[1]

In thinking about the many barriers to personal communication, particularly those that are due to differences of background, experience and motivation, it seems to me extraordinary that any two persons can ever understand each other. —**F. J. Roethlisberger**[2]

If the former quote highlights the criticality of communication in the professional life of an individual, then the latter depicts the equally significant challenges one faces in putting one's communication across the target audience. Therefore, the communication challenges facing managers and the strategies to overcome them need an in-depth analysis. The approaches and strategies discussed in this chapter can give sufficient inputs about handling communication challenges in their day-to-day working.

The word 'communicate', derived from the word 'common', means to share, exchange, send along, transmit, talk, gesture, write, put in use, relate, etc. In general parlance 'communicate' is referred to as sharing or exchange of ideas and information. Communication can be defined as transference of meaning and understanding. This means communication is the process to transfer the meaning and understanding from the mind of the sender to the mind of the receiver. Effective communication is the one where the meaning and understanding of a message is the same both for its sender and receiver.

COMMUNICATION PROCESS

The communication process represents a sequence of steps that can lead to the transference of meaning and understanding of a message from the sender to the receiver and preferably a feedback from the receiver to the sender. Shannon[3] provided a general model of the communication process in 1948, which marked the beginning of the modern field of communication. Shannon outlined the basic constituents of communication to highlight how it happens and why it sometimes fails.

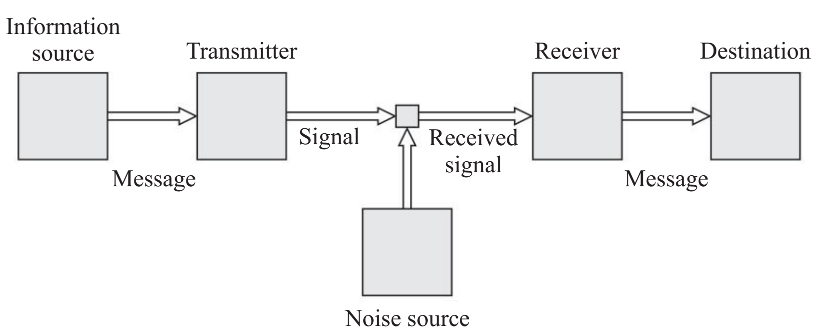

Figure 16.1 Shannon's Model of the Communication Process

Shannon's model of communication, shown in Figure 16.1, breaks the communication process into the following eight discrete components:

(a) ***Information Source:*** The sender in the communication process is an individual who initiates the communication process. He/she is the information source. He/she has an idea, thought, feelings, meaning or understanding in his mind, which he/she intends to communicate to the receiver. The sender has to develop an understanding of the context and the receiver for selecting appropriate codes to instil the desired meaning and understanding into a message.

(b) ***Message:*** An idea, a meaning or an understanding in the mind of a sender cannot get communicated on its own. It needs to be converted into certain verbal or non-verbal codes that can reach the receiver to be understood by him/her. Thus, the message refers to a codified idea or the thought of the sender that is developed by applying certain symbols (verbal and/or non-verbal) that can be conveyed to the intended receiver. The nature and quality of codes, chosen by the sender of the message, depends on the personality, knowledge and communication skills of the sender; the personality, knowledge and background of the receiver; and the situation in which communication is taking place.

(c) ***Transmitter.*** For Shannon, the telephone instrument that captures an audio signal, converts it into an electronic signal, and amplifies it for transmission through the telephone network, represents a form of transmitter. In Shannon's communication theory, transmission is generalised to encompass a wide range of transmitters. For example, face-to-face communication, the simplest of transmission systems has at least two layers of transmission. The first layer consists of the mouth (sound) and body (gesture), which create and modulate a signal. The second layer, described as a channel, is built of the air (sound) and light (gesture) that enable the transmission of signals to the receiver. A television broadcast includes many more layers because of addition of cameras and microphones, editing and filtering systems, distribution network (satellite and/or cable system), and a local broadcasting system.

(d) ***Signal:*** It represents what flows from the sender to the receiver through a channel. There may be multiple parallel signals flowing at the same time. For instance, in a face-to-face interaction, sound and gesture involve different signal systems that depend on different channels and modes of transmission. Sound and/or gestures can be turned into electronic signals, radio waves, or words and pictures in a book.

(e) ***Channel/Medium for Transmission of the Message:*** A channel/medium is the means that is used for transmitting the message from the sender to the receiver. Different forms of medium are: a telephone, an e-mail, a memorandum, the Internet or any other medium that can facilitate the transference of the message from the sender to the receiver. There may be multiple channels associated with the multiple layers of transmission from the sender to the receiver.

The choice of the medium (formal or informal) needs to be made in accordance with the message to be transmitted. The medium must be chosen diligently as it can add value to the message and make it more effective. Therefore, the sender must understand that the medium is much more than a transmitting vehicle. An oral warning given by a manager has an impact that is quite different from the one created by a written warning.

(f) ***Receiver of the Message:*** In Shannon's theory, the receiver of the message is the one who receives the signal, like ears (sound) and eyes (gesture), a telephone instrument, an antenna and a television set..

(g) ***Destination:*** It represents the person(s) who consumes and processes the signals to transform it into an understanding. After receiving the signals they are retranslated (de-codification) into thoughts or ideas by the destination. This completes the communication process by developing an understanding of the intended message. It has to be taken into consideration that the meaning and understanding of a communication can be transferred between the information source and the destination only if both the source and the destination share a similar understanding about the codes or signals.

The communication can be termed as effective if the thoughts or ideas that are finally received by the receiver are the same which the sender wanted to communicate.

Critical Appraisal of Shannon's Communication Process

Like all models, Shannon's model of communication is a minimalist abstraction of the reality it attempts to reproduce. The reality of most communication systems is more complex (Foulger[4], 2004). Shannon's model takes a very simplistic view of the communication system and ignores its very vital facets that are described below.

(a) ***Feedback:*** To ensure that the receiver has received the message in a manner in which it was originally intended by the sender, a feedback is desirable. Feedback helps the sender determine whether the communication with the receiver was effective or not. The onus of seeking/encouraging feedback lies with the sender of the message, as it is his/her responsibility to verify whether the receiver understood clearly what was desired to be conveyed to him/her. The sender should preferably ask the receiver to communicate in his/her own words the message that he has received/ understood. Making assumptions about the receiver's understanding of the communication on the basis of pre-conceived notions could prove to be costly in terms of time, money effort and the reputation of a manager if the understood information is different from the intended information.

(b) Shannon's model suggests that communication is direct and unidirectional, but in reality communication is neither unidirectional nor direct. Information sources can act as destinations and vice versa.

(c) Shannon's model isn't really a model of communication. Instead, it is a model of the flow of information through a medium, and an incomplete and biased model that is more applicable to the system it maps—a telephone or telegraph—than it is to most other media (Foulger[5], 2004).

Despite its limitations, Shannon's model was a useful abstraction that identified the most important components of communication and their general relationship with one another. Therefore, it needed to be made comprehensive with the incorporation of necessary elements that were initially not there. Subsequently, other models of the communication process were proposed to make Shannon's model more all-inclusive. These derivative models of communication are explained in brief in the following section.

DERIVATIVE MODELS OF THE COMMUNICATION PROCESS

These models make an attempt to overcome the limitations that were associated with the simplistic depiction of the communication process by Shannon. The uni-directionality of his model has been replaced with the bidirectionality of these models. Depending upon how they approach the flow of communication from the sender to the receiver and vice versa, the derivative models of the communication process can be classified into the following two categories.

(a) ***Interactive Model:*** The interactive model, depicted in Figure 16.2, elaborates Shannon's original model with the concept of feedback without changing any other element (Weiner[6], 1986). It suggests that destinations are not merely recipient, but they also provide feedback on the messages they receive so that the information sources can adapt their messages in real time.

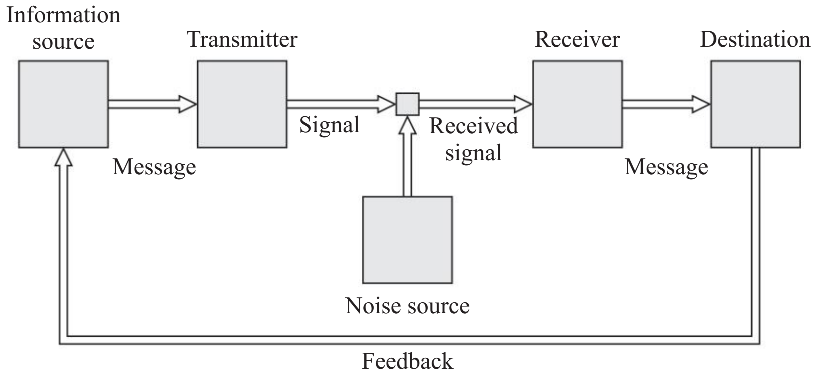

Figure 16.2 Interactive Model of the Communication Process

The concept of feedback as elaborated in the interactive model is an oversimplified one. This can be understood from the fact that feedback is also a message and not merely an acceptance of the receipt of information. Feedback is also transmitted, received and potentially disrupted via noise sources. The interactive model depicts feedback at a much higher level of abstraction than it does for the message. This limitation has been overcome by the transactive model.

(b) ***Transactive model:*** The transactive model of the communication process addresses the feedback-related limitation by eliminating the usage of terms like 'source' or 'receiver' as distinctive 'creators' or 'consumers' of messages. It comes out with a new term 'communicators' who both create and consume messages. In the transactive model, each communicator creates messages that are received by the other communicator and there exists equality between communicators that often doesn't exist even in interpersonal contexts. Figure 16.3 depicts the transactive model.

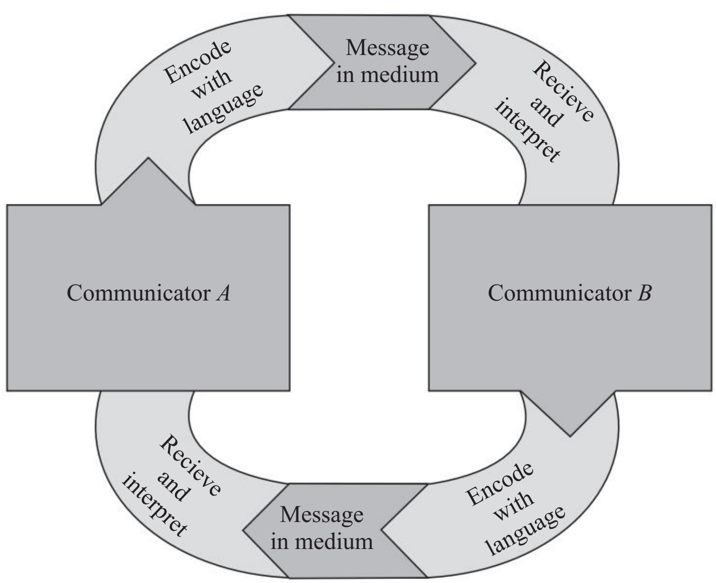

Figure 16.3 Transactional Model of the Communication Process

Limitations of transactive model: Although the transactive model presents a comprehensive depiction of effective interpersonal communication, yet it has the following limitations.

(a) This model is distinctively interpersonal and certainly does not apply in mass media contexts.

(b) In most telephone conversations, the caller has the initial upper hand in setting the direction and tone of a telephone call than the receiver.

(c) In face-to-face, superior-subordinate interactions, the superior has considerably more freedom (in terms of message choice, media choice, the ability to frame meaning and the ability to set the rules of interaction) than the subordinate.

(d) There can be a filtering of the communication at a stage when ideas are being converted into a message. This can happen because of the perception of the sender and faulty encoding. The sender might employ an inappropriate word or a wrong gesture that can distort the entire communication process that is likely to follow. There can also be a filtering of communication at the receiver's end. This filtering can happen because of a wrong perception, faulty decoding of the message, etc.

(e) A major limitation of this model is that it completely ignores the existence of 'context' in which communication happens and which influences it significantly. (The concept of context has been described in detail later in this chapter under the topic Dimensions of Communication.)

(f) The nature of personalities of the people involved in communication also impacts the overall process of communication significantly. It has to be understood that messages are not merely received by the communicators but they are actually perceived by them. The manner in which they are likely to be perceived depends on the complex phenomenon of perception which is further based on a large number of complex and intricate factors.

Thus, we can conclude that the process of communication is an extremely complex, intricate and systemic concept involving so many constituents and facets. The simplistic models discussed above may not be able to capture the essence of the world of communication in letter and spirit. Therefore, understanding various dimensions of this one of the most vital and challenging phenomena is more important than model-building to master the art of effective communication.

FORMS OF COMMUNICATION

Communication is broadly classified as verbal and non-verbal.

(a) ***Verbal Communication:*** The verbal form of communication is conducted with use of words. It is of two types—written communication and oral communication. The written communication is conducted through written words while the oral communication is conducted through spoken words. The main advantage of the written communication is that it serves as a record and is taken more seriously than the oral communication. Another advantage is that a written communication can be made more effective by revising its draft two-three times. But, the problem with the written communication is that a good number of employees in an organisation may not bother to read it or may not have enough time to go through it. As a result, they may miss important information.

(b) ***Non-verbal communication:*** Communication is not just the art and skill of language and oratory, as it is normally perceived to be, because words or verbal communication constitutes a relatively smaller part of the overall communication. It is now an established fact that over 70 per cent of the interpersonal communication is non-verbal. Non-verbal communication refers to the tools other than the words that are employed (consciously and unconsciously) by the sender to communicate ideas and thoughts to the receiver of message. It is conducted as gestures, body language, sitting and standing postures, touch, etc. Unfortunately, non-verbal communication has not received the desired importance. The receiver is generally keen to comprehend the non-verbal communication to decipher the true attitudes and motives of the sender that might not have been directly articulated by the sender.

Although people generally consider the verbal part as 'the communication', non-verbal communication is equally vital because it conveys a much larger part of the overall communication in comparison to verbal communication. It must be remembered that words, gestures and body language that are generally perceived to be communication are merely the tools of communication. These are in essence the codes that have been developed over the centuries to convey the meaning and understanding of the sender's message to its receiver.

Unfortunately the tools of communication have been misunderstood to be equivalent to communication. The implication of this misunderstanding is that all the efforts to develop communication skills are not directed at the essence of communication (meaning and understanding) but on the tools that facilitate communication between two persons. A communication proves to be really effective if the following conditions associated with its sending and receiving are satisfied.

(i) The receiver receives the same message as it was sent by the sender.

(ii) The receiver understands the message in the same way as was intended by the sender.

(iii) If the receiver agrees with the message, he/she feels encouraged to act upon it. If the receiver is not in agreement with the message, he/she feels encouraged and empowered to freely express his/her views.

(iv) The sender of the message is also open-minded to listen to and act upon the feedback or response of the receiver if he/she finds merit in it.

(v) This cycle goes on with open-mindedness of both the parties till an agreement is reached to their mutual satisfaction.

DIFFERENT FORMS OF ORGANISATIONAL COMMUNICATION

Organisational communication represents an exchange of information by an individual or a group within a collective establishment for the achievement of a common set goals and objectives. On the basis of its flow and direction, organisation communication takes four forms: upward, downward, lateral and grapevine.

(a) ***Downward Communication:*** This type of communication originates from the superiors and is intended for the subordinates down the chain of command in an organisation. It includes sharing of organisation's mission, values, strategies, goals, objectives, latest rules and regulations, and individual job descriptions, task explanations, procedures, instructions, etc.

Through downward communication, a superior communicates, instructs, orders, advises, coaches and enables a subordinate to do his/her job in a desired manner. Downward communication acts as a basic building block of organisational activity as it makes the delegation and coordination of activities possible – a key requirement for any organisation. As information moves downward in the workplace, it converts a rather abstract idea into an increasingly specific information and detailed instructions.

(b) ***Upward Communication:*** This type of communication originates from the subordinates and is intended for the superiors in the management hierarchy. Upward communication is from the operator to the supervisor, the supervisor to the department head, the department head to the vice-president, and so on. It is usually in the form of performance reports or status reports about the project's execution, compliance information and feedback.

The superiors should solicit feedback from their subordinates. Feedback helps them understand how well the subordinates have understood and carried out the downward communication. This upward communication may bring contentious issues to the notice of the superiors and enable them issue appropriate new downward communication to address those issues, thus making organisational communication highly effective. As the information is communicated up the hierarchical chain in upward communication, it becomes aggregated, less detailed and more abstract. But, upward communication can happen only if the subordinates feel comfortable with meeting the organisational leaders to discuss their concerns and be heard.

(c) ***Lateral communication:*** It refers to sharing of information back and forth at the same level of management hierarchy across different departments and divisions. It also includes discussion among peers for coordination of different activities for the execution of a project or task. Team communication is a special form of lateral communication. It includes exchanges such as 'Let me know when you're finished with that, so that I can….'

As the people involved in lateral communication have almost an equal amount of power and prestige, this form of communication is voluntary, discretionary and involves reciprocity. The quality and quantity of information that an individual provides to his/her peers generally reflects what he/she will get back from them. In lateral communication, the obvious and ongoing connections between superiors and subordinates may or may not be there among peers, therefore, it may be a difficult to start and maintain lateral communication, especially when it comes to communication across departments.

(d) ***Informal Communication or Grapevine:*** The grapevine is a communication channel that no one owns or controls and flows in all directions through multiple channels and even multiple versions. It usually involves speculation about workplace happenings and reasons behind them. People often get together in groups to speculate, which generates content for this informal network. Natural human traits of curiosity, desire to influence the way others think and behave, desire to get even with or belittle rivals, etc. fuel this communication channel.

No matter how much complete and transparent the official communication might be, it still can't provide enough information or answer all questions. The grapevine makes an attempt to fill in the gaps left behind by conventional and official communication. Because of human curiosity and the need to send out unofficial messages of one kind or another, this communication moves rapidly and travels broadly. It is a demand-driven communication and its speed reflects the degree of people's curiosity to seek it. Therefore, despite its many faults and criticism by different individuals, the grapevine does have a place and a function in all organisational settings. It is used by almost all at the workplace sooner or later.

Traditionally, the grapevine was primarily oral communication, but with the advent of new technologies and the Internet all kinds of new opportunities and platforms for unofficial communication have opened up. Cell phones, SMSes, e-mails, blogs, and social network sites are being used surreptitiously to maintain the grapevine.

CLARIFYING THE MYTHS ABOUT EFFECTIVE COMMUNICATION

Every professional has a desire to master effective communication skills. There is nothing wrong with this objective, but people have different views on what is effective communication. This has given rise to many myths about the nature of effective communication. One needs to critically examine these myths and understand the reality of effective communication.

- **Myth I**: Communication is only about exchange of ideas and information.

  Reality: Communication is much more than exchange of ideas and information. It has a very strong cause-and-effect relationship with the context in which it happens. That is why, the same information given to two sets of people can result in very different interpretations and results. Therefore, one cannot be hundred per cent sure what impact a particular communication would have on its receivers. To make communication really effective, there is need to examine all the factors that are likely to affect its understanding.
- **Myth II**: Effective communication is normally thought as 'a process of getting the other person understand, accept and act upon what is communicated to achieve intended results'.

  Reality: If we examine it critically, this definition of effective communication has a very strong sender bias. It believes the communication to be effective only if the receiver understands and accepts what the sender intended to convey. The very idea of the receiver, after listening to the sender, forming a viewpoint other than the sender's is perceived to be ineffectiveness of the communication. In this interpretation of effective communication, there is no place for the expression of dissent and disagreement. If it happens, then going by the conventional understanding of effective communication, the sender feels he/she has not been understood, and starts the process of explaining his/her viewpoint once again.

Thus, the effectiveness of communication is being widely approached and evaluated on the basis of only one factor—the message that is delivered by the sender. This creates an assumption that if the sent message is made better, the communication will become effective. However, this may not be the complete truth. A major flaw of this approach to effective communication is that it totally neglects the viewpoint of the receiver.

The basic flaws in the normal approach to communication are described below.

(i) It focuses too narrowly on the message and equates communication with the message that is delivered.

(ii) It ignores or undermines all the other factors and dimensions of communication.

(iii) It treats communication as if it is a one-time isolated exchange between two or more individuals and completely ignores the existence of the context in which the communication happens. The context has a very strong cause-and-effect relationship with what is being communicated.

(iv) It ignores the impact of the personalities of the sender and the receiver on the communication.

COMMUNICATION BARRIERS

Before learning how to develop communication skills, it is important to know about the roadblocks that make effective communication so very difficult. The reasons that prevent effective communication can be classified into three categories of barriers, namely personal barriers, organisational barriers and noise. These barriers are described below.

Personal Barriers

Personal barriers to effective communication are the factors, that are related with individuals involved in communication. These barriers are described below.

(a) ***Lack of Knowledge:*** Lack of awareness about the concept or background of communication can affect the understanding and effectiveness of communication.

(b) ***Emotions and Mood:*** The emotional state of an individual not only affects the degree of receptivity of the message but also plays a significant role in the interpretation of the message.

(c) ***Occupation:*** The profession of an individual affects his/her communication patterns considerably. Different notions and practices adopted in different professions affect the communication style of the people in that particular profession. That is why there is a marked difference in the communication of politicians, bureaucrats, policemen, teachers, etc.

(d) ***Hostility:*** Traditional hostilities between races, religions and social groups result in certain preconceived notions and biases that affect communication between people of different backgrounds, who have traditional hostility for each other. This form of hostility can be seen in the context of Chinese-Japanese, Israelis-Germans, Jews-Arabs, etc.

(e) ***Past Experience:*** One's experiences condition one's thinking, and this new learning becomes the lens through which one perceives and interprets the external world. This affects the manner in which one communicates with the external world and interprets the communication of people around one self.

(f) ***Hidden Agendas:*** Communication can have undercurrents and hidden agendas. Therefore, the degree of trust among the individuals involved in communication determines the extent to which they are likely to believe the communication of each other, and this strongly affects the effectiveness of communication between them.

(g) ***Inarticulateness:*** An individual's competency or inability to transform his/her ideas into a message significantly affects the effectiveness of his/her communication. The individuals who are not articulate may not be able to communicate their message aptly to their audience because they may not be able to use proper vocabulary or convey their message with clarity.

(h) ***Stereotyping:*** The habit of generalisation and categorisation of different individuals into different categories can create positive or negative biases about them. This stereotyping of people can act as a strong barrier to communication because one tends to communicate with people as per their stereotyped images.

(i) ***Daydreaming:*** The complete or partial lack of attention due to daydreaming can act as a barrier to communication because an individual might miss a vital part of communication which can affect his/her understanding of the entire communication. The body language of a person involved in daydreaming, which is generally devoid of proper eye contact and acceptance nods, can discourage the sender of the message, thus reducing the communication effectiveness.

(j) ***Defensiveness:*** The close-mindedness of the receiver of the message or the adamancy to blindly defend one's viewpoint can adversely affect the probability of receiving and accepting a differing but logical viewpoint. This defensiveness can encourage the other person to also take an equally defensive position, thus rendering the communication between them largely ineffective.

(k) ***Information overload:*** If the message is highly overloaded with information 'then it might not be possible for the receiver to comprehend it in its totality. He/she might get confused and may even lose interest in the communication due to his/her inability to understand it. Sometimes time pressures and target deadlines create such situations that the individual finds it difficult to properly read inter-office memos and instructions. Rather, he/she just looks for the crux of the message and avoids reading the message completely.

Organisational Barriers

Unfortunately, professionals often place a greater emphasis on personal barriers. But, organisational barriers are a much more important factor in communication problems. For example, the varied nature of teams is a major organisational barrier itself. The terms typically involve people from different departments, who use different languages and terminology, have different objectives, had different types of training and yet must work together closely on a particular task. Due to their inherent diversities, the teams have very different approaches towards communication. Similarly, the nature of authority relationship that two individuals share in an organisation affects their communication significantly. Organisational barriers are related to the following organisational factors.

(a) ***Organisational structure:*** A highly hierarchical organisation structure with a narrow span can create a large number hierarchical levels, which can affect the flow of communication across the organisation. At each level there can be some filtering of the message. Each person can deplete some elements of the message and add new ones as he/she passes the communication to the next level. This phenomenon can affect the effectiveness of communication as it flows across the organisation.

(b) ***Nature of authority relationship:*** How is the authority dispersed across the organisation and what is the level of power distance between two management levels affect the nature of communication among them. Some organisations deliberately encourage the subordinates to address their superiors with their first names so that they feel lesser power distance and there can be more open and transparent communication among them. On the other hand, if there is prevalence of fear and autocracy then communication is likely to be only downward with the exception of performance and status reports.

(c) ***Information overload:*** The quantum of information being passed on to different individuals decides how much attention they can provide to each message. If larger than the optimum number of messages are being communicated to an individual, then they would certainly act as a barrier to the communication effectiveness.

(d) ***Time pressures:*** How much time pressure is being exerted by the organisation and its management on the employees will determine how much time and attention they can provide to the communication that happens with them. The employees are likely to overlook some of the messages if they are facing severe time pressures with respect to their core job. This can act as a vital organisational barrier to the overall communication process.

(e) ***Nature of job:*** The nature of job too affects communication. Generally, the manufacturing and operations personnel have short time horizons due to the fact that the outcome of their work (productivity) can be measured relatively quickly and definitively (e.g. units per hour). However, the time horizons for their counterparts in such areas as software engineering, new product development and research are relatively longer. One would not measure the productivity of employees in these functions by the lines of code per hour, new products per week or patents per month. Therefore, when the employees from different departments come together as a team, they have vastly different senses of urgency, which is reflected in their approach towards work and communication. This difference in the employees' sense of urgency due to their different backgrounds gets conditioned over a period of time and acts as a key barrier in the path of effective communication.

Noise

Noise represents secondary signals that obscure or obliterate some portion of the original signal in a communication channel or confuse the signal that is carried from the sender to the receiver. But, today's media are so noise-free that compressed signals are constructed with little likelihood of signal loss and the element of noise is used more as a metaphor for problems associated with effective listening.

The sender must understand that parallel to his communication with the receiver so much is happening simultaneously which would ultimately affect the communication he/she intends to have with the receiver. Anything that acts as an obstacle or hindrance in effective communication between the sender and the receiver is noise.

Noise can even distort the clarity of the message. Examples of noise are: inaccurate reception of the message because of the disturbance in the medium like a faulty telephone line, noise in the environment, parallel communication from other sources, interest or concentration of the receiver in some other object, etc.

WHAT MAKES COMMUNICATION SO DIFFICULT?

Along with the barriers cited above, there are a large number of other perceptual factors that make communication between two people a challenging task. This challenge can be understood from the complex manner in which Jack Welch developed a letter every year in the later half of January. This letter would appear in GE's Annual Report and serve as a perfect platform to discuss GE's last year's performance, management philosophies and business strategies. Welch used to dictate his first draft into a dictating machine. When the first draft was complete, a secretary transcribed the recording. Welch then began the process of editing and redrafting. Once it was refined and polished, he used to give the letter to ten senior GE executives for their inputs[7]. The letter had to go through a series of improvisations to reach the stage of the final draft.

Communication has been a daunting challenge before the mankind. The list of the factors that make communication complex is almost endless. Given below are some major causes of complexity behind the highly intricate and vaguely understood phenomenon of communication.

- ***Only one person can be right:*** From early childhood, the human mind is so much conditioned with this learning—if one wins then the other loses. But in real life, winning and losing may or may not be complementary. Both the parties can win at the same time and there may be a situation when both may lose simultaneously.

  Just like our win-loss conditioning, in communication also it is believed that if two persons are saying two different things about an issue, then only one of them can be right. So without thinking sensibly two persons having different views on an issue start attacking each other in order to win. As nobody, likes to lose, communication turns into an argument in case of peers and a silent and sullen withdrawal by a subordinate in a hierarchical relationship.

  The win-loss paradigm needs to be replaced with a win-win paradigm. It implies accepting the fact that both the persons saying different things about an issue can be right because what they say is based on their individual perspectives of that issue. It is very much valid to have two different perspectives on the same thing.
- ***Natural tendency to judge and evaluate:*** The human survival in prehistoric times, when our ancestors were still living in jungles, was based on making quick judgments and evaluations about the impending dangers. This trait continues till date consciously as well as unconsciously, even in situations when it is not needed, just as a habit. Human beings also draw pleasure from their habit of making judgments also. But this habit is associated with three crucial problems related to communication, which are described below.

  (a) The pace at which one makes an evaluation or a judgement is generally associated with one's level of intelligence. Often people make evaluations as fast as possible, even when it is not required. In the process, many a time wrong judgments are made, which affect the communication between two individuals.

  (b) While passing judgments we categorise the people. This creates a context (right or wrong) or an image in our mind of these people, which affects the communication we have with them.

  (c) Most of human beings don't like to change their evaluations or judgements. Therefore, whatever evaluations are made at the first instance, right or wrong, people like to justify them throughout rather than modifying them.

  Most of the time, this phenomenon of passing judgments, at a pace much faster than required, hampers the open-mindedness that is so essential for making communication effective, hence communication becomes very biased.

- ***Differences of background, experience and motivation:*** What a person communicates is actually the representation of what a person is, what he/she has experienced in life so far and what is his/her need that he/she wants to fulfil through communication. However, the receiver of the communication might have a very different situation with respect to these parameters. Rarely can these parameter be the same for two individuals. Normally, we don't expect them to be the same. These differences create very different understandings by two persons of what they see, hear and feel.

  In view of people's different backgrounds, one should always be conscious that in howsoever better and effective manner one has delivered one's message, it can still be misunderstood. Accordingly, one should always make an attempt to ensure that the other person actually understands the communication in the same way as one wants. Assuming that the communicated message has been understood in letter and spirit, not receiving the feedback about the receiver's understanding can prove costly in terms of time, money and reputation.
- ***Sudden and extreme reactions after listening to a part of the message:*** When conflicting and competing issues, in which parties are emotionally involved, are being discussed and there are possibilities of gain or loss, then sudden and extreme reactions are normally observed instead of carefully thought out responses. Many times these extreme reactions come out only after listening to just a part of the message. This confounds the problem of communication. The sender after being provoked by the extreme reaction of the receiver of the message takes a conflicting position, which he/she might not have been taken otherwise. In such situations, everybody just wants to speak what comes to their mind. No one is prepared to listen or think sensibly. Thus, in this scenario everybody is speaking and nobody is listening.

  Extreme reactions need to be delivered with extreme caution as the last resort after a careful understanding of the situation and the message and not as the very first option to dominate the other party. If the required patience is not exercised, the focus of communication shifts from the main issue to the secondary non-important issues which were non-existent earlier.
- ***Beginning with the end in mind and the risk associated with listening:*** Most people start communication with an end-result in their mind. They come prepared to defend their positions and make others accept their ideas. In such a scenario, there is a risk associated with listening carefully to other's views because these views may influence the receiver to depart from his/her position and modify his/her views.[3] But the listener does not want this to happen. So, he/she deliberately adopts a strategy not to listen to others in order to achieve his predefined objectives from a given conversation.

  This approach affects the whole dynamics of communication. Rather than approaching the solution through communication, individuals normally start with stating what they consider is the solution and all they want is that others should accept it. The belief that the effectiveness of a speaker lies only in making people agree to what he/she is saying de-motivates people from listening. This very fact makes listening carefully the viewpoints of others a very dangerous proposition because one does not want to change one's views and position under the influence of others.

So, in the face of numerous communication problems, it is very difficult to master the art of effective communication. To be a good communicator, it is important to learn how to get one's message across effectively by overcoming the communication hurdles.

HOW CAN ONE GET ONE'S MESSAGE ACROSS?

Most of the short-term and quick-fix solutions offered for the communication problems in the training programmes as well as communication literature, end up as superfluous decorations. The vital point to learn about communication is that it is not just how we communicate but also what we communicate. At the same time, it is also important that the message be crystal clear to its receiver.

Four basic practices can improve communication and enable the sender to get his/her message across to the receiver.

1. ***Communicate in a manner others want to listen:*** The sender of the message must understand the needs and thinking patterns of the receiver and the context in which communication is happening. This will greatly help in developing a strategy for effective communication.

   The sender can delve upon the following questions to make his/her communication really effective: What is on the mind of the receiver of the message? What are the needs of the receiver? What are the problems the receiver might be facing or thinking about? What words, phrases, examples, or analogies will make good sense to the receiver?

   Generally, one knows what one wants to say, but it is equally important to know what the other person wants to listen and in which manner. The key point about communication is that one has to not only communicate the message but market it too. The managers or for that matter all individuals need to learn how to package their ideas in a manner that makes it easy for others to tune into them. This does not mean to change the idea, but simply modify its presentation. A communication has three ingredients—motive, message and packaging strategy. These ingredients should be taken care of to make the communication effective.

   (a) **Motive**: It represents the need of an individual or the response that an individual actually wants from others as a result of communication.

   (b) **Message**: It should be ensured that the message of the communication reflects the motive for which the communication is being undertaken many times the motive and the message seem to be quite different.

   (c) **Packaging Strategy**: The packaging strategy decides the way of presenting a message to the target audience. It focuses on vocabulary, body language, appeal, medium used, etc. The message presentation can be modified in accordance with the recipient of the message, not the motive or the intended message.

   Therefore, effective communication aims at developing an ideal blend of what a sender wants to communicate and what a listener wants to listen. This can be achieved by being careful and thoughtful about one's own needs and the needs of the others.

2. ***Make Certain that the Receiver Knows Why the Message is Important:*** Normally, the focus of the sender is only on the message, he/she does not focus on why this message is being given. But, it is very important to communicate why a particular message is important for the sender or speaker, the whole team/organisation and the listener. The reasons might be different for all.

   Individuals perceive the world around them in their own terms. The terms of the receiver of the message may not be the same as those of the sender. Therefore, the sender must understand the interests and needs of the person with whom he/she is communicating. The best way to get the attention of the audience is through what is referred to as 'benefit selling,.' The following throws light on this.

Ramakant Chauhan, a successful salesperson of an insurance company is meeting with a potential new client, Anubhav to discuss his insurance programme.

'Anubhav, let me ask you a few questions.' Ramakant begins the conversation.

'All right,' says Anubhav.

'Anubhav, do you have all the money that you really need in your life? asks Ramakant.

'No, of course not,' responds Anubhav.

'OK,' says Ramakant. 'Let me ask you another question. If something happens to you tomorrow, would your family have enough money for the repayment of remaining EMIs (equated monthly instalment) of your house loan, for living expenses, for college for your lovely kids?'

Anubhav hesitates, and Ramakant quickly holds up his hand and says,

'That's OK, Anubhav, I understand. But let me ask you just one more question. Do you love your family?'

Now Anubhav has a problem he did not have a few minutes ago. He is motivated to listen to Ramakant as they discuss ways to match Anubhav's love for his family with his financial resources. Ramakant, of course, is in a position to 'help Anubhav solve his problems'.

Ramakant has told Anubhav 'Why he should listen' and has 'made it clear how his message can help him'. The important thing to be considered in this example is that Anubhav's interest in the message is developed only after listening to the reason behind the message. Without understanding the associated reasons, the receiver might not consider the message, or might give a relatively lower degree of importance to it.

3. ***Keep the Other Person Informed:*** One can be a better communicator if he/she keeps the information flowing on a regular basis. This can be accomplished formally (review meetings or weekly reports) as well as informally (tea/coffee breaks). One of the biggest mistakes many managers make is not communicating with their team members in a consistent, ongoing fashion. Furthermore, they do not communicate regularly with the upper management and are surprised when the management asks what is going on.

   Monitoring the progress of the project/activity constantly providing regular feedback to the project team members is the key to avoid many communication problems. Likewise, keeping the boss or the bosses informed helps minimise the likelihood of having a surprise visit from them.

4. ***Communicate Assertively with Understanding:*** People normally think that communicating assertively means making sure that they get their point across and have it acted upon. But that kind of communication is actually aggressive. The assertive communication ensures that the ideas are heard, but at the same time the listener is also provided with adequate space to communicate his/her ideas. The result is true communication and better problem solving because both individuals get their ideas out on the table and attended to.

   Suppose a team member comes to the team leader and says: "I've got a great idea about how to handle this problem we've been having. Let me tell you. We could fire the subcontractor and redo their work ourselves by working overtime." This is an example of aggressive communication because it is all one-way communication and the individual did not make any effort to solicit the idea/input of the team leader. This can be made assertive by restating it as: "I've got an idea, how we could solve the problem we've been having. Let me tell you about it, and then I would like your reactions and ideas about it. I think we might be able to fire the subcontractor and redo their work ourselves by working overtime. What do you think?"

There are four possible outcomes when both the team leader and the team member communicate assertively:

1. The team leader's ideas get implemented.
2. The team member's ideas get implemented.
3. A compromise of ideas gets implemented.
4. A completely new set of ideas that neither the team leader nor the team member had thought of initially, emerges after dialogue and deliberation gets implemented.

The key to assertive communication is the concept of understanding. Communication with understanding means that a person actively focuses on making sense of the other person's ideas. By blending assertiveness and understanding, the manager focuses not just on the message going from the sender to the receiver but also on the feedback from the receiver to the sender.

But, effective communication cannot happen only by the efforts of the sender of the message without an active listening on the part of the receiver of the message. To become a good communicator in day-to-day life, one must become an effective listener first because this encourages others to listen when one starts speaking.

HOW TO BECOME A BETTER LISTENER?

It is quite unfortunate that listening skills have not received the deserved importance in the arena of communication. Although the importance of listening is known to many, the virtue of good or effective listening is actually practised by very few individuals. As a result, listening is a poorly developed skill. Tests of listening comprehension show that typically an individual hears only about one quarter of the information that comes to him/her. One can become an effective listener by following the suggestions given below.

(i) ***Be prepared to listen:*** One needs to have a strong desire to hear the message coming to him/her by constantly scanning for messages. Sometimes they come very directly and clearly; at other times they are almost imperceptible. Being prepared also means cutting down on the distractions (phone calls during a meeting) that can hamper the listening. In order to understand that whether a listener is properly listening or not, the sender of the message can ask him/her to complete a sentence that he/she has communicated. More often than not, people complete it incorrectly.

(ii) ***Stop talking:*** Some managers believe that things will get done faster by conveying to the others what they want to be done. But, experience shows that the best managers learn about the happenings in the organisation by listening carefully to others. When one stops talking, he/she creates the opportunity for others to communicate their ideas and concerns. Stimulating others to talk is usually more important than listening to one's own talk.

(iii) ***Listen with understanding:*** One needs to make a conscious attempt to understand what has been communicated. If the message is unclear, one may use assertive approach to get the message clarified. If a team member is very angry, the other team members or even the team leader need to hear out the angry member, try to understand the reason why he/she is hurt and acknowledge the anger before getting to the real message and responding to it.

(iv) ***Hear the speaker out completely:*** One needs to be sure that one has heard the other person completely before responding. This does not mean that one can't ask a question to get a clarification to check one's own interpretation of a point. But, it only means to be sure that one does not cut off the other person while he is talking.

(v) ***Listen for What is Not Said:*** A lot remains unsaid in the verbal communication. The listener has to be conscious so that he/she knows that what has been said and what might have been missing or has not been properly communicated. Asking the sender what actually he/she meant by his/her message can clarify the things better.

For example, Bharvi says to one of the team members: 'Silky, would you please check the files on the shelf. Study and summarise the results in the form of a memo by this Friday?' Silky responds, 'Sure, I'll look into it.' At the outset, it appears to be OK. Bharvi could easily assume that Silky will get the job done by Friday. But, if we think a bit deeper, what did Silky not say? She did not say that she would prepare the memo by Friday. Had Bharvi been listening to what has not been said, she could not have misunderstood what has been said.

(vi) ***Listen for How Something is Said:*** One needs to pay attention not only to the words that have been communicated but also to the feelings or the emotional level of the message. These can be understood by noticing the eye contact, body language, tone of voice, timing and other non-verbal signals.

Imagine a team meeting happening late on a Saturday evening where two of the members have positioned themselves out of the circle. Two other people seem to be surveying the floor and the ceiling with their eyes. Only the manager seems to be talking. The manager can easily understand the level of the team member's interest by observing what they are doing and not from what they are saying.

(vii) ***Wait out Pauses:*** The manager needs to give a team member the time to share his/her ideas fully and wait for the team member to collect thoughts before he/she responds to his request. If a manager or any individual wants people's true response, he/she has to be patient. By being silent, one can invite others to communicate their thoughts.

(viii) ***Provide Feedback:*** The receiver needs to let others know what he/she has heard and what he/she is going to do with their request, order or information. Until this loop is completed, communication has not really occurred; only transmission has. If a manager has a trouble in communicating with a particular team member, he/she can institute the 'say-back rule.' This rule works like this: A team member conveys something to the manager. The manager must say back in his/her own words what the team member has said to the manager before replying back to the message. If the team member is not satisfied, he must send it again, and the manager must say it back again. This goes on until the team member is satisfied. Then the manager makes his/her point, and the team member must say it back to the manager until the manager is satisfied.

If a manager is working hard to ensure that his/her ideas are being communicated more effectively and he/she also makes an effort to be a better listener, he/she is setting an example for the others in the organisation. This will result in the improvement of the communication skills of others.

DIMENSIONS OF EFFECTIVE COMMUNICATION

Communication is a multidimensional phenomenon. Some important dimensions of communication are discussed below. Any individual who aims to develop effective communication skills need to examine each dimension carefully. Then only can one understand what constitutes effective communication.

Context

Every communication has a context. This context is the environment and the background in which the communication happens. This includes pre-conceived notions, attitudes, sentiments and feelings that the sender and the receiver of the message have about one another and towards the situation they are in, and the subject of the communication. The context has a very strong influence on whatever is said, the way it is said and also what is understood. Even in the case of the people meeting for the first time there is a context of apprehension, anxiety or suspicion that significantly affects what they say and what is understood by them.

In an organisational setting, factors like hierarchy, political siding, favouritism, competitive rivalry among colleagues, desire for one-up-manship or letting the other person down for what happened in the past combine to create a strong context. It determines what normally will be the response of people to a particular communication.

So, every sender has to first understand the context in which he/she is delivering a given message. After that it has to be examined whether the message, its order and delivery need to be modified according to the prevailing context. The sender should be aware that the same message can produce a different response in two different contexts. For example, the response to a communication in the environment of trust and confidence is completely different from the response to the communication that happens in the environment of doubt and anxiety.

Logic vis-à-vis Sentiment

The sender of the message usually perceives communication as a logical expression of verbal and non-verbal symbols. Therefore, the sender's emphasis on presenting the ideas and information in a logical manner as far as possible. But, sentiments and emotions play a very significant role in the overall understanding and response to any communication. Communicators generally underestimate this role.

Reality vis-à-vis Personal Reality

Perceptions have a significant impact on communication. People develop different understandings of the same object or activity due to their different educational qualifications, experiences, background and motivations. Hence, everybody's idea of reality (personal reality) is quite different from that of others (their personal reality). Although everyone believes that they understand perception, yet the majority of us seem to forget it when the communication is taking place. This happens because of the following two subtle reasons.

(a) Human beings have a natural tendency to be evaluative and to pass judgment on almost everything and everybody with whom have an interface. Accepting the phenomenon of perception actually means accepting that all the evaluations and judgments that one makes about events, people, etc. may not be real. This is the reality that everybody cannot afford to accept that easily.

(b) People believe that whatever they understand is 'the reality'. However, they normally describe the understanding of others as a perception, not a reality. They don't use the word 'perception' to describe their own understanding.

Proactive vis-à-vis Responsive or Reactive

If the reactive nature of communication is associated with animal instincts, then the responsive nature of communication is associated with thoughtful and conscious reply of human beings. Therefore, it is normally advised to think before you speak to make your communication effective. But, the highest level of effectiveness in communication can be attained by being proactive. Proactivity in communication means creating an environment or context in which communication automatically becomes effective. A proactive sender controls the nature of communication and it is not controlled by the situation. As the sender controls the communication, there is no need for him to react to it.

By being proactive one can create an environment of trust, understanding, openness and transparency. Once it is established, even the relatively less effective communication produces effective results. On the other hand, one has to exert, justify, respond or react in those situations that are created by one's defensiveness and lack of trust, but still the communication is unable to produce the optimum results.

Attitude and Action vis-à-vis Words

One does not communicate just by words and body language but also by the past or present actions and the underlying attitudes. Receivers of the message are more focused on the attitude of speakers and their actions than on their manage.

If one focuses on developing the verbal and non-verbal aspects of the communication, one will not able to make the communication very effective but only marginally better than it used to be. Or, we can say that by using softer and acceptable words and gestures, one can reduce the probability of hurting the people. But, to produce drastically positive and stretching responses, the domains of actions and attitudes also need to be looked upon as areas requiring improvement.

Dialogue vis-à-vis Debate

These words might be used interchangeably in the common parlance, but there is a subtle difference between the two. Effective communicators not only understand the distinction between dialogue and debate, but also know when to move from one form of communication to another without mixing them.

Dialogue is an exercise to bring clarity on an issue by encouraging expression of divergent views on it. The focus is to explore as many options and viewpoints as possible so as to investigate and understand the issue from all perspectives. On the other hand, debate is convergent in nature. Its aim is to select or zero in on fewer options from all available alternatives so that a decision can be taken. Debate is more like an elimination process where the stronger argument is defeating the comparatively weaker argument.

Dialogue and debate are required on different time frames. By avoiding the mixing of the two, a skilful communicator is able to first generate maximum options to tackle an issue through dialogue with the team and then is able to select the best possible option among them through debate. But if dialogue and debate are mixed in the same time frame, much of the important information is lost in the process (either it does not come out or is prematurely rejected before letting it to be fully explored and developed).

Understanding with you vis-à-vis understanding about you

A manager can have two basic approaches with respect to developing an understanding about an issue while he/she is communicating, handling conflicts and negotiating solutions. In the first approach, the manager can try to comprehend the issue on the basis of his/her personal viewpoint or assumptions. The second approach is to understand the issue by also considering the viewpoint of the other party. In the latter approach, the manager tries to understand how it feels to the other person under given circumstances.

The individuals, who adopt the second approach, are perceived to be more open-minded and understanding-oriented. This encourages the other party to adopt a similar attitude towards them. This also increases the probability of communication becoming more effective and more likely to solve the problem than in the case of the first approach.

Rogers[8] (1983) developed a systematic method of empathetic listening in which 'each person can air a view only after first restating the ideas and feelings of the previous speaker accurately'. He observed that by adopting this methodology the comments are automatically modified as the statements grow less exaggerated and less defensive and thus extreme emotions go out of the discussion. Thereafter, only rational and understandable differences are left.

Approaching the solution vis-à-vis stating the solution

Communication should not always begin with one individual stating the likely solution to another. In this approach, individuals take a position which they have to defend. If the other party also sticks to a contradictory solution, communication becomes a battlefield where different solutions are competing with one another for acceptance.

Communication should be approached as a systematic process to reach the solution. All involved should give the suggestions as their viewpoints without fear or hesitation. Then these suggestions need to be discussed, independent of the persons who gave them, in order to achieve the synergic effect. In this scenario, communication leads to the best possible solution which in most of the cases is better than the solutions originally thought of by the parties involved.

Attacking the problem, not the individual

Skilful communicators employ strategies and words to delink the issue under consideration and the persons involved (who are presenting or are being affected by it). They create an environment in which issues are debated independent of individuals. The criticism of a particular viewpoint is neither made to look like an attack nor perceived to be an attack on the individual who presented it. In such a context, the energy of the entire team is focused on solving the problem, devoid of any ulterior communication.

Help vis-à-vis Unwanted Interference

Sometimes the help extended by an individual in the form of advice or suggestions is perceived undue and unnecessary interference and also as an attack on the self-esteem and integrity of an individual. This difference is created by the presentation and not the intention. Therefore, the speaker has to be careful in the selection of words and gestures while offering any kind of help to others to avoid any misunderstanding about it.

A broad understanding of the dominant dimensions or nuances discussed above can increase one's awareness and sensitivity about the field of communication. This sensitivity, which is rooted in the personality of an individual, is the first step towards a long journey for developing effective communication skills.

ROLE OF PERSONALITY IN DEVELOPING COMMUNICATION SKILLS

A message is usually interpreted by the receiver by keeping in mind the personality of its sender. The message decoding process is further influenced by the personality of the receiver. Thus, the domain of communication is significantly related with the personalities of the people involved. It is not possible to develop effective communication skills without understanding the impact of the factors related with one's personality on the communication process. Some dimensions of people's personalities which affect communication significantly are discussed below.

Problem-centric or Solution-centric Personality

The basic attitude of a person towards the problems/issues determines what he/she would communicate the moment the problems will be discussed. If a solution-centric person is discussing an issue with a problem-centric person, then it can be easily imagined what kind of communication will follow between them. The problem-centric person will be repeatedly discussing the problem itself, whereas the solution centric one will be giving one solution after the other. They will talk to each other from two different platforms, one overwhelmed by the problem and the other keenly interested in solving it.

Most of the time, they will frustrate each other. The problem-centric person thinks why the solution-centric person is giving solutions when he just wants to do a catharsis by discussing the problem. He might even feel hurt that the solution-centric person considers himself more intelligent is trying to downplay him. On the other hand, the solution-centric person will soon get irritated by the lack of contribution from the problem-centric person in resolving the problem.

To develop effective communication skills, people must understand what personality type (problem-centric or solution-centric) they and the people around them are. Then, they will have a better understanding of the manners in which they themselves and the other people converse. This understanding leads to the increased acceptance of others and modification of one's own communication accordingly. Over a period of time, this will result in effective communication.

Level of Awareness about Self

Joseph Luft and Harry Ingham[9] developed a model 'Johari Window' to analyse different traits of one's personality. Their focus was to find out whether one's personality traits are known or unknown to oneself and also to others. This model is presented in Figure 16.4.

	Information known to self	Information unknown to self
Information known to others	I OPEN	II BLIND
Information unknown to others	III HIDDEN	IV UNKNOWN

Figure 16.4 Johari Window

All individuals have some personality traits in all four quadrants of the Johari Window. Different individuals have different percentages of traits in each one quadrant. One of these four quadrants emerges as a predominant quadrant for every individual. This dominant quadrant then determines, to a significant extent, the personality and communication patterns for that individual. The communication characteristics of individuals for each quadrant as dominant window are described below.

(i) ***The Open Self (Arena):*** The open quadrant refers to that part of the personality, feelings and motivations of an individual, which are known to oneself and are also known to others. The individuals with large 'Arena' are straightforward, transparent, open and sharing in their communication. A large 'Arena' facilitates communication while the smaller one leads to poor communication.

(ii) ***The Blind Self:*** The people who have a large 'Blind Self' do not know what is happening to them, but others know about it. Jongeward and Seyer (1976)[10] observed that, 'People may speak in a certain way with a tone of voice, a look on their face, a gesture, that they are blind to, but other people are acutely aware of it.' It means either the others are not willing to be open with the people having a large 'Blind Self' or do not give relevant feedback to them. It also means that they are not good listeners as they are not in a position to perceive what is directly/indirectly communicated to them. Thus, there are chances of a lack of two-way communication or feedback from others.

(iii) ***The Hidden Self (Closed):*** The quadrant comprises the aspects of one's personality, which are known to the person but are unknown to others. Other people are unable to perceive the verbal and non-verbal behaviour of the 'Hidden Self' persons. As a result of this unwillingness to share information with others, there are chances of interpersonal conflict and lack of trust. This can result in poor communication, de-motivation, wrong perception and misunderstanding.

(iv) ***The Unknown Self (Dark):*** The personality constituents that are unknown to a person as well as unknown to others constitute the 'Unknown Self' quadrant. Persons who have relatively large 'dark' quadrant prefer to communicate less with others, and others too are not very keen to communicate with them and give them the feedback. In such situations, there are chances of increased misunderstanding and interpersonal conflict.

To improve one's communication, one needs to enlarge one's arena. This can be done by

(a) increasing the willingness of others to share information

(b) perceiving the verbal and non-verbal feedback.

(c) generating feedback from others by increasing the level of mutual trust and reducing the level of threat that other perceive while communicating with him/her.

(d) learning about group dynamics and participating in cross-functional teams.

Transactional Analysis (TA) and Ego States

The concept of TA was initially introduced by Eric Berne[11] in the 1950s and later popularised by Thomas Harris[12] in the 1960s. This concept has a deep association with the domain of communication. TA assumes that individuals have three different Ego States which represent their psychological positions or behavioural patterns with which they communicate and interact with one another. These ego states are developed on the basis of beliefs, feelings and experiences accumulated by an individual over a period of time. These determine how a person is likely to think, feel, communicate and behave in a given situation.

The ego states are broadly classified into three types: Parent, Adult and Child ego states. These have been diagrammatically presented in Figure 16.5. Individuals communicate from different ego states at different times. But most people respond with one particular ego state more often than they do with other ego states. This ego state is known as their predominant ego state and defines their communication style in general. The understanding of the phenomenon of ego states and its impact on one's communication can be very useful to improve the communication abilities for an individual.

The communication patterns of people operating under different ego states are described below.

Parent Ego Individuals with the predominant parent ego state tend to talk down to people and treat others like children. This ego is expressed in the form of advice, admonitions, do's and don'ts and showing displeasure. The communication of a person with a predominant parent ego is judgmental, rule making, moralising, distant and dogmatic. There are two types of parent ego state which are described below.

- ***Nurturing Parent Ego:*** Communication of an individual with a nurturing parent ego state reflects a sympathetic, protective and nurturing attitude and behaviour to the listener.
- ***Critical Parent Ego:*** Communication of an individual with a predominant critical parent ego state is critical and evaluative. Such individuals normally use 'should' or 'ought to' in their sentences and tend to attack people's personalities as well as their behaviour.

If the nurturing parent ego represents an inclination of helpfulness in communication, then the critical ego state represents hurtfulness.

Adult Ego Communication of an individual with an adult ego state is authentic, direct, reality-based, rational, fact-seeking and problem-solving. People having an adult ego do not communicate impulsively (like a child) or in a domineering style (like a parent). They show a thoughtful concentration and do a factual discussion. They gather relevant information, carefully analyse it, generate alternatives and present a logical choice while communicating with others.

Child Ego Communication of a person with a predominant child ego state reflects creativity, conformity to order, anxiety, depression, dependence, fear, joy, sentiment, insubordination, attention seeking, temper tantrums, giggling, coyness and rebellion.

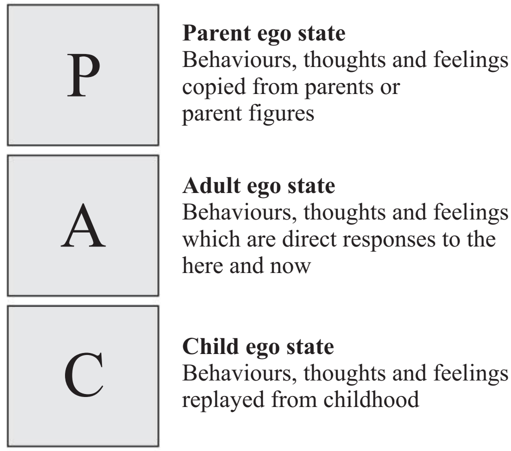

Figure 16.5 The Ego States

On the basis of the ego states of persons involved in any communication, there are three types of transactions (communications) that are described below.

Complementary Transactions In these communications, stimulus and response patterns from one ego state to another are parallel. These communication combinations, outlined in Figure 16.6, are explained as follows:

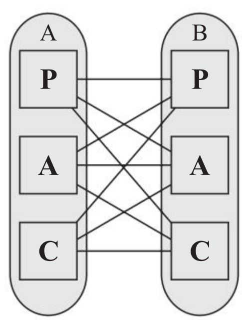

Figure 16.6 Complementary Transactions

(i) ***Adult-Adult Transaction:*** The communication from the adult to adult ego is an ideal transaction. It is psychologically mature and effective because both the parties are acting in a rational manner. But, the absence of child ego state may make the adult-adult transactions a bit dull on some occasions. If the communication between two adult ego people reaches a deadlock, then the senior among the two can move to the parent ego state to break the deadlock and take the communication to conclusive end.

(ii) ***Adult-Parent Transaction:*** In such communications, there is likely to be frustration on both the sides. The rational viewpoints presented by the person with the adult ego are countered by the parent ego person by citing rules, procedures and past antecedents. The parent ego person is frustrated because the adult ego person will not always act as directed and will present a rational viewpoint to counter the conventional communication. Communication between these ego states can be effective only temporarily.

(iii) ***Adult-Child Transaction.*** An adult-child communication can be effective only if the senior person has an adult ego and is aware that the other person is having a child ego state. But, there might be frustration for the adult ego person if he/she assumes the other person to be in the adult ego, who is actually in the child ego. When the senior person has a child ego and the junior one has an adult ego, it will pose problems for the junior individual whose rationality is countered by the creative whims and fancies of the senior person.

(iv) ***Parent-Parent Transaction.*** Communication between two persons having the parent ego state is likely to create unnecessary competition to enforce their own ideas. Communication among them can be effective only if one of them gives up or joins hands and supports the other.

(v) ***Parent-Child Transactions:*** It is an ideal situation only in the short run, that too if the senior person is communicating from the parent ego and the junior one is responding from the child ego, and not the other way round. The parent ego person is satisfied because he/she can dictate his/her own terms. The child ego person is satisfied because he/she can escape from responsibility and pressure. But, in the long run, the child ego person may start showing rebellion and frustration in his/her communication because of the increasing dominance by the parent ego person.

If the senior person is having a child ego and the junior one is having a parent ego, it leads to ineffective communication among them. The junior person tries to control the senior one and the senior person might yield for some time but will perceive him as a threat. This can force the senior to rebel and behave in an irrational manner with the junior and snub him/her at different occasions, leading to communication problems.

(vi) ***Child-Child Transaction.*** When both the individuals involved in communication have a dominant child ego, then both of them will act on their whims and fancies. Communication among individuals with a dominant child ego state might be effective in the social scenario, but it is not likely to last for long in the organisational setting. The senior will not be able to lead the junior employees successfully and this will jeopardise the performance of the organisation.

Except for adult-to-adult communication, all other complementary transactions are not ideal in the long run. Only the parent-child communication can be effective in some situations that too for a short time span.

Crossed Transactions In the crossed communication, the sender delivers a message on the basis of his ego state by assuming that the other individual is in a particular ego state. But, this message is replied by the receiver from an entirely different ego unexpected ego state. One such crossed transaction has been diagrammatically presented in Figure 16.7. For example, a person trying to communicate with the other on an adult-to-adult ego basis is shocked when the response comes back on the child-to-parent ego basis communication gets blocked. The crossed communication should be avoided as far as possible. Consequently, because it tends to be blocked quite early. One needs to untangle the crossed transactions quickly in order to make the communication effective.

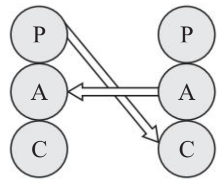

Figure 16.7 A Crossed Transaction

Ulterior Transactions

Communication through ulterior transactions is undesirable and the most complex because it always involves more than two ego states at the same time and the communication has a double meaning. In these transactions, a person appears to be communicating one type of message but is secretly sending another one. On the surface level, the communication has a clear, adult and sophisticated language; whereas on the psychological level, it carries a hidden message that could be very different and even negative for the listener. These transactions described diagrammatically in Figure 16.8 need to be avoided.

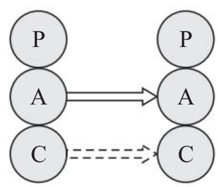

Figure 16.8 An Ulterior Transaction

Individuals can respond more in a complementary transaction, rather than a crossed or ulterior transaction if they have a thorough understanding with regard to ego states. They can modify their communication according to the situation and the personality of the recipient and improve their interpersonal communication.

Life Positions

People make basic assumptions about their self worth as well as about the worth of people in their environment. Thomas Harris[13] (1967) called the combination of these different assumptions as life positions. These assumptions can be classified as: 'I'm OK—You are OK', 'I'm OK—You are not OK', 'I'm not OK—You are OK' and 'I'm not OK—You are not OK'. The life positions are depicted in Figure 16.9.

Attitude towards self	**Positive**	I am OK— You are not OK	I am OK— You are OK
	Negative	I am not OK— You are not OK	I am not OK— You are OK
		Negative	**Positive**
		Attitude towards others	

Figure 16.9 Life Positions

Every individual can be broadly described in terms of one of the four fundamental life positions. The life position of an individual significantly influences his/her communication style. The communication patterns of people operating from different life positions are described below.

1. ***I am OK—You are not OK:*** In this life position, people normally converse from a critical parent ego and are usually negative about others and give critical and oppressive remarks. They tend to point out the flaws, bad things and rarely communicate any positive feelings. They demonstrate in their communication that others are lazy, irresponsible and un-trustful, and thus need to be closely controlled and often coerced to achieve the task assigned to them. A person in this life position takes a holier-than-thou attitude, which is reflected in communication in the form of superiority.

   The nurturing parent ego person in this life position communicates with others by almost imposing himself/herself on others as if others are children and depicts to others that they are being taken care of as they are more or less helpless. The reactive child ego individuals in this life position are likely to show aggressiveness through infighting, making heavy demands, fighting, or going back to the same issues again and again.
2. ***I am not OK — You are OK:*** People in this life position grumble for one thing or the other and depreciate themselves in their communication. They do not depict much trust in their own ability and, consequently, may not be assertive in their communication. The nurturing parent ego individuals in this life position try to please or pacify others to keep them in good humour to get their work done by them. The adaptive child ego persons' need for safety may be reflected in their communication as overdependence on others. The creative child ego persons in this life position use satire to escape the confrontation while depicting their critical attitude.
3. ***I am not OK — You are not OK:*** People in this position tend to reflect in their communication that they feel bad about themselves and others. They show no confidence in themselves and do not depict trust in others in their communication. The individuals with the regulating parent ego state establish norms and regulations in their communication for almost everything. The nurturing parent ego persons in this life position provide support to others but their communication is perceived to be more of unnecessary and incompetent interference rather than as help.

   Those communicating from the adult ego in this life position normally make this remark about almost everything: 'Nothing significant can ever be done.' The adaptive child ego individuals in this life position accept the norms of others but proceed to sulk, by keeping dissatisfying feelings private. This dysfunctional adaptation makes them attitudinally negative, which is reflected in their non-verbal communication. The reactive child ego people in this life position show their aggressiveness by withdrawing from communication.
4. ***I am OK — You are OK:*** People in this life position depict confidence and trust in themselves as well as others in their communication. They encourage free flow of communication not only up and down the hierarchy but also in the peer group.

   The individuals with the regulating parent ego in this life position seek participation from others while setting the norms and in deciding how they will be followed. The nurturing parent ego individuals in this life position provide advice and supporting communication to others if such support is either solicited or needed. The adaptive child ego individuals in this life position are quick to assess the situation and quickly change their communication if needed. The individuals with reactive child ego in this life position demonstrate functional aggressiveness in their communication. The confrontation in their communication is targeted at the problem, not the individuals.

One can easily imagine the difficulties of communication when people with two different life positions or even with the same life position but different ego states are communicating with one another. It is not easy for them to accept what/how a person with a different life position or ego state says. For example, imagine a person with 'I'm OK—You are OK' life position is communicating with a person having 'I'm not OK—You are not OK' life position. If everything will appear fine or acceptable to the first person, then nothing seems fine or acceptable to the second person. It would be difficult for them to come to a common understanding. Most of the time their communication is likely to be focused on modifying each other's perceptions. They will also be equally frustrated with the viewpoints of one another.

It is difficult to develop one's communication without understanding the factors related with personality. To develop communication by giving due importance to life positions, an individual can undertake the following steps.

(a) Be conscious of the life position from which one communicates and analyse the life position from which the other person is responding to one's communication.
(b) Analyse the reasons and root causes behind the other person believing in a particular life position.
(c) Examine the rationality and objectivity behind the other person believing in a particular life position.
(d) Analyse the merits and demerits associated with one's life position by examining how one's life position affects the communication, work and relationship one has with others.
(e) Understand, how far one is from the ideal life position of 'I'm OK—You are OK'.
(f) Develop a strategy to gradually move toward the ideal life position.
(g) Regularly monitor the progress towards the ideal life position.

Stroking

The term 'stroking' originated from the studies of the need of babies for physical affection in the form of eye contact, touch, pat, etc. for complete psychological development. As an individual grows from infancy into childhood and adulthood, he/she does not entirely lose his/her need for stroking. A considerable part of the original need for physical stroking is later satisfied through symbolic stroking like verbal recognition and eye contact between persons. Therefore, strokes refer to 'giving some kind of response to the action or communication of others'.

Communication plays a vital role in delivering the much-needed symbolic strokes. So, to develop effective communication skills, an individual needs to understand the role and importance of strokes. Jongeward and Seyer[14] (1976) observe, 'People need strokes for their sense of survival and well-being on the job'. There are the following three types of strokes:

1. ***Positive Strokes:*** These strokes make one feel good. Praise, recognition, approval, pat on the back, etc., are the forms of positive strokes. It is important to give positive strokes to people for their positive results.
2. ***Negative Strokes:*** These strokes make one feel bad or not good, and hurt a person psychologically. Criticism, scolding, taunt, sarcasm, etc., are examples of negative strokes.

3. ***Mixed Strokes:*** It is a combination of positive and negative strokes. 'You did an excellent job in spite of your limited experience' is a form of mixed stroke.

A manager can normally get better results by providing positive strokes through communication. But, on some occasions, people also feel relieved of their guilt if they get the expected negative stroke. For example, if the subordinate has committed a mistake and the boss criticises him/her for that, the subordinate will feel relieved of the guilt for his/her mistake since the expected punishment has been received. But, the absence of strokes is one of the severest forms of psychological punishment. It creates a lot of stress on an individual. He/she is in a dilemma whether what he/she is doing is right or not? It can also be very de-motivating for the concerned individual as he/she is not receiving any feedback for his actions.

Therefore, to have effective communication skills, one must learn the art of: when to deliver which stroke and in which manner. Effective communicators understand the importance of strokes. They develop very good relationship with others by satisfying their need for different type of strokes at different times.

Thus, if a manager with a wider arena emphasises the adult-adult interaction with 'I'm OK– You are OK' life position and provides positive strokes from time to time, he/she can develop a highly effective communication with his subordinates and team members.

DEVELOPING COMMUNICATION FORMATS

For monitoring the progress of activities and projects in an effective manner, managers need simple yet effective communication formats through which team members and subordinates can communicate with them to apprise them about the progress of the assigned work. Managers need to standardise a consistent method of reporting so that everybody reports by using the same format, leading to standardisation of reporting. The communication formats to be employed by managers for reporting of the progress of the team effort should possess the following characteristics:

- Easy to fill.
- Act as effective control mechanisms.
- They should save the time for the reporting party and the 'reported to' party by making the required information immaculately clear.
- They should highlight the contributions made by the team and individual members. They should also make it clear who is not contributing and what is hindering the progress of the project.

Routine reporting formats for weekly and monthly reports are discussed below. Their advantage is that they can either lead to a situation where lengthy meetings are either not required or they can be employed to make meetings more effective, focused and time-bound. These reporting formats can ensure optimum and effective information flow without losing on information and without wasting the time of the people involved.

Weekly Report

A brief, yet informative weekly report format is presented in Figure 16.10. The manager can provide the sample weekly report formats to all the team members, which can provide information in a standardised form to everyone at the same time. The standard weekly report format helps in comparing what is actually done and what was promised to be done for that particular week.

This format highlights only three elements: 'Current week', 'Forthcoming week' and 'Concerns' Under 'Current Week' a person can write about the activities accomplished in that particular week. Below 'Forthcoming Week', the activities to be performed in the coming week can be listed. Through this everyone knows what has been done and what is likely to be done in the following week. What has been accomplished can be easily compared with what was planned for that week in the previous weekly report. This helps in ascertaining the conformity of actions with the plans.

'Concerns' represent the bottlenecks and roadblocks—the things which hamper the successful achievement of objectives. Although suggestions for resolution of concerns may not be communicated in this report, yet the reporting party should have suggestions ready (at least one for every concern), noted at the back of the report, and provided if they are asked for by the 'reported to' authority.

Weekly Report

SAMPLE

Week:
Project/Task
Project Manager/Team Leader:
Circulation:

Current Week:

1.
1.
2.
3.
4.
5.
6.

Forthcoming Week:

1.
2.
3.
4.
5.
6.

Issues/Concerns:

1.
2.

Figure 16.10 Weekly Report Format

All the team members can submit their weekly reports to the manager at the end of the week. team leader can keep separate files for the reports received from different team members for future reference. At the same time, all the team members can also get a copy of the report submitted by the other team members. The manager can develop his/her report on the basis of the reports submitted by the team members. The manager's report can be submitted for distribution to the senior management, department heads of the nominated team members and all the team members. This helps the manager work horizontally across functional boundaries.

Applications of Weekly Report Apart from the normal function of reporting the progress of the project, a weekly report can also serve the following purposes.

- ***An Agenda for Weekly Meeting:*** In the weekly progress meeting, the manager can quickly interview each person on the basis of the contents of his/her weekly report.
- ***Personal Contact:*** Through weekly reports, the team leader would be better informed about what a team member has done in the previous week and what he/she would be doing the coming week. This information can form the basis of informal discussion that the team leader can have with the team members in their workspace.
- ***Managing Cross-functionally and Horizontally:*** If the department managers assign other responsibilities (which demand much of his/her time) to the team members contributing to the project, then the team leader can report it as a concern in his weekly report to the top management to tell them that his/her project is suffering.
- ***Information Sharing:*** Everyone involved or concerned with the project's current status can be effectively informed through weekly reports.
- ***Planning:*** An activity plan for the next week is accurately and effectively forecast.
- ***Motivational Tool:*** The manager can effectively inspire cooperation from those supporting the project by reporting their accomplishments and planned activities to the people who matter to them, their department heads and the top management.
- ***Timely Problem Solving:*** Concerns can be effectively brought to the attention of everyone to increase awareness and to facilitate corrective measures in a timely manner.
- ***Controlling Tool:*** The information in the weekly report format helps the team leader to effectively monitor and adjust activities with the team members.

Monthly Report

The top management is not much interested in the day-to-day and activity-wise execution of operations. Their primary interest is to see monthly progress—whether the project is moving forward as per the monthly targets or not. They are also concerned about resources and budgetary allocations—whether the project is utilising the resources according to the budget or not. Managers prepare monthly reports for the consideration of the top management and department heads. A sample format of monthly report has been presented in Figure 16.11.

The monthly report format is shown in Figure 16.7. The categories of information that can be included in the monthly report format are briefly discussed below.

Monthly Report SAMPLE

Month:
Prepared on:
Project task
Project Manager/Team Leader:
Circulation:

Budget Performance:

Activity	Budget	Spent	Balance	Proficiency
Results				

Proficiency = <1.0 is good

Schedule Performance:

The project is progressing according to/behind/advance of the schedule.

Current Month

The major activities performed in the past month are as following:

(a)
(b)
(c)
(d)
(e)

Remarks:

Forthcoming Month:

(a)
(b)
(c)
(d)
(e)

Concerns/Issues:

Figure 16.11 Monthly Report Format

- *Budget Performance:* It is a simple consolidation of the capital utilisation for the project's execution under different heads. Looking at it, the top management can see what budget was appropriated for which activity, and what was actually spent. The difference in what was budgeted for and what was actually spent can be easily analysed. The performance factor or the proficiency for each activity is calculated by dividing what has been spent by what has been allocated in the budget. If it is less than 1.0, it is good; a proficiency of more than 1.0 is bad. However, it is the overall budget performance that matters.

- ***Schedule Performance:*** The Schedule Performance section provides information about the activities that have been accomplished. This enables the management to track time and money together.
- ***Remarks:*** In the Remarks category, the manager can mention the rationale for schedule delay and expenditures overrun.
- ***Forthcoming Month:*** This section depicts the planned forecast for the coming month. It highlights select major activities that are likely to be undertaken in the coming month by the project team.
- **Concerns:** Concerns are things that are negatively affecting the accomplishment of stated objectives and the person filing the report is concerned about them. If a subordinate reports a concern to the team leader in a weekly report, then the manager needs to analyse it, to see if he/she can handle it. If the team leader can solve it, it is fine; if not, he/she can simply pass it as a reported concern to the superiors in his/her monthly report.

Apart from the benefits mentioned in the weekly report, a major benefit of the monthly report is that the manager or team leader can utilise it as an instrument of motivation. All the team members and their functional heads are fully aware that the progress of the project is being reported to the people who matter. Therefore, nobody would like to have his or her or their department's name as an area of concern in the report. Therefore, it ensures the co-operation of functional heads. Therefore, through monthly reports, the team leader can manage horizontally in an effective manner.

Conclusion: The solutions to the problem of communication are rooted more in the domain of human nature and personality, from where it originates, than in the narrowly defined field of appropriate use of different tools of communication. There is need to carry out in-depth modifications in the personality of an individual to make his/her communication effective. Words and gestures that are visible to us represent only the tip of the iceberg called as communication. Therefore, the widely prevalent approach of tinkering with the effects (words, gestures, etc.) and leaving the root causes unchanged cannot be expected to lead to a vastly improved communication.

Points to Remember

1. Communication can be defined as transference of meaning and understanding. It becomes effective when the meaning and understanding of a message is the same both for its sender and receiver.
2. Most of the reasons that prevent effective communication can be classified into three categories of barriers, namely personal barriers, organisational barriers and noise.
3. Practices that can improve communication are: communicate in a manner others want to listen, make certain that the receiver knows why the message is important, keep the other person informed, and communicate assertively with understanding.

4. One can become an effective listener by: being prepared to listen, stop talking, listening with understanding, hearing the speaker out completely, listening for what is not said, listening for how something is said, wait out pauses, and providing feedback.
5. The factors related with personality play an important role in the overall communication process.
6. Some personality aspects, which affect communication, are: problem-centric or solution-centric personality, level of awareness about the self, ego states of an individual, and an individual's life positions.
7. An individual needs to learn the art of when to deliver which stroke and in which manner to develop effective communication skills.

Review/Discussion Questions

1. Define communication and describe the communication process.
2. Critically appraise the basic communication process and discuss alternative communication models.
3. Discuss the different forms of communication and highlight the role of language in communication.
4. Explain the different forms of organisational communication.
5. Identify the various myths about effective communication and present the corresponding reality.
6. What are the different personal and organisational barriers to communication?
7. What human factors make communication so very difficult?
8. What strategies do you recommend to get the message across?
9. How can one become a better listener?
10. Highlight the different dimensions of effective communication.
11. Critically examine the role of personality in developing communication skills.
12. How do problem-centric and solution-centric people approach communication between them in entirely different manners?
13. How can the understanding of 'Johari Window' model be applied for developing communication skills?
14. How can we apply transactional analysis to the domain of communication?
15. Apply the 'I'm OK—You're OK' model to understand and develop communication skills.
16. How does the phenomenon of 'strokes' apply to the domain of communication?
17. Critically analyse the role of communication formats in the form of weekly and monthly reports.

Field Exercises/Class Exercises/Group Projects

1. Students should outline the barriers that they generally feel while communicating with their father or senior teacher or principal of the institute. They should also then recommend different strategies to overcome those barriers to make their communication really effective.
2. Students should be asked to narrate at least one instance where there was miscommunication because of a perceptual difference between the sender and the receiver.
3. Students should be asked to narrate the hesitations that they face or problems that they encounter when they talk to people of different gender, age group, hierarchy or from different socio-economic profiles.

4. Students can be asked to narrate at least one incident where sudden and extreme reaction (which was unnecessary or could have been avoided or which they might have regretted later) of theirs spoiled a beautiful and long-lasting relationship. Could they establish the bond with the same intensity again? If yes, how?
5. Students should be divided into groups of twos. Each group has students that know each other quite well. They have to develop profiles of one another on the basis of ego states, life position and their position with respect to Johari Window. Then they can discuss the feedback with one another and try to reach a meaningful conclusion using assertive (not aggressive or accepting) communication.
6. Students can be asked to identify the people with whom they communicate the most. They should develop the nature of communication pattern that they have with them on the basis of different ego states and life positions.

On the Internet

1. Visit http://findarticles.com/p/articles/mi_m4153/is_4_60/ai_106863366/ to learn tips to effective listening skills.
2. Visit http://www.businessballs.com/body-language.htm#body-language-different-cultures to learn more about body language and then try to apply the text knowledge in real life or through a classroom discussion.
3. Visit http://www.factivities.com/communication/boxlift.html to learn communication skills through a management game Box Lift Exercise.
4. Log on to http://www.leadersinstitute.com/resource/howtoremembernames.html to learn how to remember the names of different people to improve upon the communication.

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Case Study

Middle Management Blues: Communication Challenges

Expert Financial Solutions Ltd. (EFSL) is a fast growing but tightly held and controlled financial services company. The family members of the promoter hold key management positions in the company, and the leadership style of the top management is primarily authoritative. Virtually all important decisions of the company are taken by the coterie of family members. In this context the role of middle management remained confined to communication and ensuring proper execution.

To professionalise the company and bring in a professional management talent, it went to a premiere business school and recruited Vasant as a Management Trainee (Marketing) at a hefty salary. Vasant turned out to be a star performer. Within a short time, he was promoted as Area Sales Manager and put on a fast-track career path because of his exemplary results and his proactive behaviour.

The top management also started seeking his opinion on key matters so much so that he established an informal communication channel with V.P. (Sales & Marketing) for feedback on company's new projects and initiatives at the grassroots level.

Everything was going on smoothly till Hardyal Singh, Regional Manager (North) in the company started feeling a bit threatened because of the increasing importance that was being showered on Vasant by the top management because of his excellent performance. Within a period of two months, Vasant realised that very distorted communication was being presented about him by his boss Hardyal to the top management.

Vasant observed that his key contributions were not being communicated and the findings/recommendations of his research-based analysis to improve the functioning of organisation also never reached the top management. Instead, his small failures were being highlighted more often that not.

When Vasant brought all this to the notice of the VP (Marketing), he empathised with him and suggested that he should make a conscious effort to regularly update him about what he was doing in an informal manner.

This increased proximity between the VP and Vasant added fuel to the fire. Hardyal took it as a serious challenge to his authority by a person who has joined less than a year back. As a result, a cold war ensued between the two. Apparently, they appeared to be cordial, cooperating, respecting and working in unison for the interest of the EFSL, but in reality one important point of their agenda at almost every meeting was to cut each other.

Questions for Discussion and Analysis

1. How can situations like the one described here be resolved by implementing an effective communication approach and tools?
2. What effective communication strategies do you recommend to ensure that similar concerns do not emerge again for two different sets of people?

Chapter 17

Conducting Meetings, Handling Conflict and Coordination: Vitalising People by Building Agreements

Conflict creates energy and effectively handling differences between people energises everyone on the team.

—**Anonymous**

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand the characteristics of different types of meetings
- appraise how to make the meetings effective
- understand the way to develop the minutes of meetings
- comprehend the nature, types, sources and stages of conflict
- appraise how to manage conflict and building agreement
- understand the techniques of effective coordination

INTRODUCTION

Managers need to interact with different individuals from the same or different departments—vertically as well as horizontally—to ensure the coordination of different activities for the fulfilment of an objective. Meetings play a vital role in establishing this coordination as they are one of the platforms widely used by managers to communicate with the target audience to get things done. It is a well-known fact that managers at all levels spend considerable time of their working life attending or conducting meetings. Therefore, thinking of managing without meeting the subordinates or the other stakeholders (physically or by employing technology) seems to be nearly impossible.

But, at the same time, the effectiveness of meetings as a platform of communication has been found to be mixed. The efficacy of a meeting is subject to the effectiveness of the manager who is conducting it. Some people like to talk, so meetings go on and on even though an agenda is provided beforehand. Therefore, a general perception is developing among the professionals that most of the meetings are a waste of time because there are very few takeaways from long meetings. Many a time after attending a meeting, one wonders why the meeting was called and what was accomplished at the meeting? Therefore, to be effective, a manager needs to learn how to conduct meetings effectively?

MEETING

A meeting is any gathering or assembly or coming together of two or more persons, who at least constitute a quorum, assembled in response to a previous notice or by mutual agreement for transacting some lawful business of common interest. Quorum is the minimum number of persons required to be personally present for a valid meeting.

Characteristics of Meeting

- For a meeting, the physical or virtual presence of two or more persons is essential.
- A meeting is called for some lawful business or objective.
- Prior notice to the attendees as an intimation of the meeting is a prerequisite.
- Specified date, place and time of the meeting have to be decided in advance for communicating to the potential attendees and for making preparations.
- A company's legal or statutory meetings, like Shareholder's Meeting, Annual General Meeting and Board of Director's Meeting, are governed by the provisions of the Companies Act, 1956.

Different Types of Meetings

All meetings are not the same. Different types of meetings are called for different purposes. Drucker[1] (2004) identified different kinds of meetings for whose conduct different forms of preparation are required. Some of these meetings are described below.

- ***To prepare an announcement or a statement:*** In these meetings, a draft for an announcement or a statement, prepared beforehand by a member, is discussed. At the end of the meeting, a preappointed member disseminates the final text.

- ***To make an announcement:*** These meetings are confined to discuss an issue for which an announcement has to be made at the end of the meeting.
- ***One person has to present a report:*** Only a report is presented and discussed in these meetings.
- ***Several or all members present a report:*** In these meetings a report is presented. Thereafter, either there is no discussion at all or the discussion is confined to the questions asked for clarification.
- ***To inform the convening executive:*** In these meetings the convening executive listens, asks questions and sums up what he has understood, but he/she does not make a presentation.
- ***Symbolic Meeting:*** This is a meeting to allow the participants to be in the executive's presence.

How to Make Meetings Effective

Conducting a meeting, like other facets of management, is an art that can be learnt like any other skill. There are certain fundamentals and practices with respect to meetings, whose application on a consistent basis by a manager can enable him/her handle this vital tool of management efficiently and effectively. Some of the vital tools and techniques to make meetings effective are discussed below.

Planning the Meeting The manager can make the meetings effective by properly planning them in advance. By being fully prepared to conduct a meeting, the manager can lead others by example. The important elements that need be considered while planning a meeting are described below.

(a) ***Setting meeting objectives:*** The manager should have a clear idea about what he/she is trying to accomplish through the meeting? He/she should determine specific and observable end-results that the meeting should help achieve.

(b) ***Establishing quorum:*** The manager should determine who all should attend the meeting. This enables him/her make the deliberations of the meeting binding and useful for fulfilling the purpose of the meeting.

(c) ***Determining who is going to be responsible for what?*** The manager needs to plan that who would be responsible for doing what in the meeting. He/she should make decisions about the procedures for the conduct of meeting. It should be known in advance who will chair the meeting and who will be called upon to speak in the meeting?

(d) ***Developing an effective agenda:*** A clearly-defined agenda not only sets the right tone and direction for the meeting but also enables the manager control the proceedings as the meeting progresses. The proposal of the matter to be discussed in the meeting must be prepared and distributed by the manager in advance to all the attendees of the meeting, so that everyone comes prepared with his/her viewpoint on the subject matter. The agenda can be developed by keeping in mind the following points.

    (i) Developing an appropriate sequence of agenda items: How the different items in the agenda are sequenced play a vital role in determining the effectiveness of the meeting. The following points should be taken into consideration for giving a proper sequence to the agenda items.

    - Start with a unifying item: The meeting should preferably start with an item on which the members are likely to agree and the possibility of a conflict or disagreement is the least.

- The agenda items requiring creativity should be dealt early.
- A key item should be reserved for the end.
- End the meeting with a unifying item: The meeting should ideally end with an item on which there is likely to be an agreement so that the spirit of camaraderie is maintained and reinforced.

(ii) Allocating tentative timing for different activities

(iii) Total time of the meeting (when it will end).

Examples cited in Table 17.1 presents one of the modes to develop an agenda of the meeting.

Table 17.1 Plan of the Meeting

Agenda items	Team members	Time
Introduction	Mayank (Leader)	5 minutes
Customer complaint analysis report	Karan Gupta	20 minutes
Identify five problem areas	Team	30 minutes
Select printing services vendor	Team	30 minutes
Plan next meeting	Bharvi Oberoi	5 minutes

(e) ***Arranging things required for the meeting:*** By timely arranging the material and information related with the meeting, the manager would be in a position to conduct in an effective manner. The things need to be arranged for the meeting are listed below.

(i) Minutes of the previous meeting

(ii) Reports to be read beforehand

(iii) Written reports/graphics wanted at the meeting

(iv) Arranging or ensuring the availability of the things or audio-video infrastructure that would be needed at the meeting venue. The required audio-visual equipment should be in the ready-to-operate condition.

(f) ***Deciding the venue and time of the meeting:*** To ensure the participation of senior or key members, the manager should ascertain their availability before making a final decision with respect to the time and venue of the meeting.

Preparation for attending the meeting

The manager and the attendees should make a decent effort to prepare for the meeting to make it effective. The following areas need to be addressed during the preparation for the meeting.

(a) Generate ideas to be presented in the meeting and write the talk.

(b) Decide on the delivery or presentation method and appropriate body language to be adopted while keeping one's viewpoint in the meeting. Determining in advance whether any audio-visual aid would be needed to make the presentation.

(c) Finding the people who might support one's contention in the meeting.
(d) Identifying the wit and humour that one can use to hold the audience attention while presenting one's argument.
(e) Developing a strategy to persuade or convince the audience.
(f) Seeking special advice if needed on any subject concerned with the meeting.
(g) Discussing the content of presentation with anyone in the higher management if needed.
(h) Assessing the requirement of a written report and preparing the same if needed.
(i) Making an attempt to understand the knowledge that the participants are likely to have about the subject on which one is going to give a presentation.
(j) Reading and revisiting the presentation prepared for the meeting and identifying key points to be highlighted and emphasised.
(k) Predicting the behavioural encounters and reactions to the purpose of the meeting and developing strategies to deal with them.

Conducting the meeting effectively The manager needs to have a wide range of managerial and interpersonal skills to conduct the meeting effectively. The meeting can be made effective by taking into account the following guidelines.

(a) ***Opening remarks:*** The opening remarks are very important and should be planned in advance. They set the tone for a successful meeting.
(b) ***Announcing the purpose of the meeting at the beginning:*** The manager should open the meeting by stating the purpose of the meeting and explaining how the purpose will be accomplished. The manager can utilise this opportunity to highlight the importance of the meeting.
(c) ***Focus on the Agenda:*** The meeting needs to be kept focused by aptly following its meeting that is distributed to the attendees in advance. Only the issues that are of general interest to the entire group and that are included in the agenda need to be discussed in the meeting.

    The issues, which are specific only to an individual and have no relevance for the group as a whole should not be discussed in the meeting. If the manager has a concern with the information of a particular team member, it should be kept aside for later discussion by giving an appointment to the respective member. This needs to be done due to the following reasons.

    (i) It saves time because the issues with respect to the group as a whole are discussed in the meeting. Otherwise, the time of the other attendees is wasted when the one-to-one communication between the manager and a particular attendee is in progress.
    (ii) In an open forum a defensive posture by attendee because of the presence of others might prevent a quick resolution to concerns.
    (iii) Some members are more comfortable to talk their concerns with the manager in private without divulging too much details in a group setting.
    (iv) This process works to break down barriers and stimulate valuable communication.
(d) ***Exchange of ideas:*** The majority of meetings are conducted to have a healthy discussion on an issue. The manager should ensure that there is a proper exchange of information among the members and with the leader of the meeting.

(e) ***Time-bound:*** In order to be really effective, meetings should start on time. There must be pre-decided timings not only for the start of the meeting but also for its ending; otherwise, the meeting tends to go on and on.
(f) ***Taking notes:*** It is a good habit that the attendees bring a notepad or diary to make notes of the discussions and agreements that happen during the meeting.
(g) ***Proper Record-Keeping—Preparing the minutes of the meeting:*** The manager should ensure that minutes are maintained for the meetings as these records form the basis of future decisions and agreements.
(h) ***Signatures of the members present:*** The manager should ensure that the members present at the meeting sign its minutes as this becomes an evidence of their agreement to the decisions taken at the meeting.
(i) ***Guidelines for the leader:*** A leader should listen first and give his contribution only after all the other attendees have put forward their viewpoints. The leader should listen more and speak only to clarify confusing points. At the end, he/she should sum up the proceedings to emphasise the conclusions and thank the participants for their contribution.

Closing the Meeting Effectively The meeting should not come to an abrupt end, especially on a note of disagreement or conflict. The manager should try to have an amicable, acceptable and assertive end to the meeting. This can be done by making an appropriate summarising and closing statement in the following manner.

(a) ***Summarise:*** The manager should summarise what has been agreed upon in the meeting and confirm the next steps. This can be done by simply itemising what will happen next, and who will perform which step and when each step will be completed.
(b) ***Positive ending:*** The meeting should preferably end on a positive note even if it was called to discuss a negative situation.
(c) ***Closing statements:*** The closing statement is very important as it emphasises the degree of importance the manager attaches to the follow-up action. It plays a vital role in ensuring that the actions agreed upon are carried out.

Follow-up The manager can build a consensus and agreement upon what was discussed in the meeting to ensure its implementation in a timely manner. This can be done by taking the following steps.

(a) Issuing a memo.
(b) Specifying summary of discussions and conclusions.
(c) Who has to do what as decided in meeting.
(d) Deadline for each proposed action.
(e) Date of the next meeting on a particular issue or action discussed at the meeting.
(f) Copy of memo to all attendees of meeting

Typical Problems of Meetings and How to Handle Them

- ***Quiet participants:*** Some participants at the meeting keep quiet. They make little contribution to the proceedings of the meeting. The manager should have a strategy to motivate the quiet participants to make a positive contribution. The moment he/she notices any change in the facial expression of a quiet participant, he/she should use it as an opportunity to exhort that member, 'Priya, it looked as if you were about to say something'. The manager can also request all participants to write their responses and ask a quiet participant to read his or hers aloud.
- ***Irrelevant Issues:*** To handle the participants who raise irrelevant issues, the manager can clarify the purpose of the discussion. He/she can tactfully state that the issue is not relevant to this discussion but might be useful during another meeting or discussion.
- ***Side or Private Conversations:*** Some participants have a habit of indulging in private conversations while the meeting is on. The manager can request these participants in advance to abstain from private conversations. If they still carry on their conversations, the manager can ask them to share their discussion with the entire group.
- ***Disagreement among Participants:*** The manager needs to ensure that there is a conflict of ideas rather conflicts among the participants. He/she can ask a participant a question that requires a factual response rather than an emotional response.
- ***Rejected Suggestions:*** The manager can ask the participant who rejects a suggestion to propose a better alternative.
- ***Senior Participants:*** The manager should request senior participants for their comments after other participants have made their contribution.

Meeting Minutes

What makes a meeting effective is the takeaway from its deliberations as a learning for future implementation. Therefore, the takeaway needs to be recorded in a proper manner as the minutes of the meeting for future reference.

The meeting minutes serve as an essential communication tool. While recording the minutes, there is no need to record every spoken word. One needs to summarise the key points and facts that have relevance as record for future reference.

First, the meeting minutes should record factual details, like date, the names of the attendees, and the agenda and background of the meeting. Then the discussions and decisions can be noted separately in the form of points. Concerns, if any, of the members with respect to the agenda of the meeting should also be recorded separately. This should be followed by recording the actions that need to be taken as a result of the decisions of the meeting. At the end there should be provision for having the signatures of the attendees to the meeting as their agreement to the discussions, decisions and actions.

A sample format for recording the meeting minutes is provided in Figure 17.1. This self-explanatory format is very effective in recording the business conducted in the meetings.

MEETING MINUTES

SAMPLE

Date:
Purpose:
Attendees:

Backdrop of the Meeting:

Deliberations: The major discussions during the meeting were as follows:

1.
2.
3.

Decisions: The attendees of the meeting agreed that:

1.
2.

Concerns: The bottlenecks, roadblocks, people, things, which are hampering the successful achievement of objectives are described below.

1.
2.

Suggestions for Resolving Concerns: The suggestions for resolving the concerns, expressed at the meeting, are listed below.

1.
2.

Actions: The following actions by the persons named against them were decided to be taken by their respective deadlines.

1.

Signature:

Designation	Designation
Designation	Designation
Designation	Designation

Figure 17.1 The Format for the Minutes of the Meeting

CONFLICT

The practising managers spend a significant amount of their time managing differences and conflicts between their subordinates. Conflict management or resolution is a vital skill that a manager can employ to maintain good relations among the subordinates and enhance the overall productivity of the organisanation by quickly nipping the subordinates conflicts in the bud. Experienced managers understand the role and criticality of conflict handling in the achievement of organisational objectives.

Conflict is a perceptual issue that arises as a result of a disagreement over the goals or on the means to attain them. A conflict arises when individuals or groups, having different viewpoints, recognise their differences. Then the parties involved in a conflict may look for ways to resolve their differences.

Inherently, conflict is neither good nor bad, rather the outcomes of conflict can be good or bad, functional or harmful, and positive or negative. It all depends on how the concerned managers and the subordinates handle a conflict.

Effective managers understand that disagreements and conflicts are not only unavoidable but also quite desirable. A positive thing about conflicts is that they are born out of something that people care for because people generally do not fight over issues they don't care about. Conflicts, if managed well, can revitalise people, ensuring their continued interest and commitment, encouraging novel and integrative solutions and spotlighting potential difficulties. Energy can be created by a conflict and it is a force that can unleash people's imagination.

Types of Conflict

Conflicts may be classified into two broad categories on the basis of following two parameters.

(a) ***The Parties Involved:*** On the basis of parties involved, conflicts can be further categorised as:
- **Intrapersonal conflict**: This type of conflict takes place within an individual due to the incompatibility between his/her needs and the goals of the organisation. It can also take place because of the lack of clarity about the role an individual has to play.
- **Interpersonal conflict**: If two individuals get into conflict over an issue, it is termed as interpersonal conflict. These conflicts may arise because of the incompatibility between individuals or when an individual perceives that his/her interests are threatened because of the actions of another individual.
- **Intergroup conflicts**: Conflicts between groups, which may arise because of differences in viewpoints or due to competition for scarce resources, are termed as intergroup conflicts.

(b) ***Outcome of the Conflict:*** Conflicts are also classified on the basis of outcome they are likely to generate. This classification is described below.
- **Functional Conflict**: If the outcome of a conflict is likely to be positive for the parties involved and the organisation, it can be termed as functional conflict. The existence of such a conflict, which prevents stagnation and complacency, can prove to be fruitful and productive for the organisation. Some managers are adept at generating and sustaining functional conflicts up to an optimum level among the employees.

  The benefits associated with a functional conflict are:
  - It gives boost to creativity and innovation.

   - It encourages healthy competition among the employees.
   - It provides stimulus for change.
- **Dysfunctional Conflict**: If the consequences of a conflict are likely to be negative for the parties involved and the organisation, it can be termed as dysfunctional conflict. Parties to a dysfunctional conflict continue attacking and defending most of the time and devote little time to building an agreement. A large number of disadvantages are associated with a dysfunctional conflict. Some of them are described below.
   - It adversely affects the organisational equilibrium.
   - It creates lot of negative politics in the organisation.
   - It leads to mistrust among the concerned parties.
   - It creates unnecessary stress and tension for the concerned employees.
   - It diverts energy to unproductive areas and diminishes the productivity of the affected parties.
   - A dysfunctional conflict between the management and the labour can lead to financial losses, strike or even closure of the unit.

Sources of Conflict

A manager needs to understand where and when disagreements are likely to arise to manage them effectively. Conflicts can arise over the following points of contention.

(a) ***Execution of Tasks by Cross-functional teams:*** Increasingly, tasks are being assigned as projects to cross-functional teams. People on these teams come from different departments and backgrounds and have diverse experiences. Consequently, their different ways of working, understanding, etc. increase the probability of conflict.

Every new product development team at most of the professionally managed companies involves at least one person each from marketing, engineering, finance, R&D and manufacturing. This type of wider representation from different functional areas can bring into different perspectives and priorities, thus creating conditions for conflict at different stages of the task execution.

(b) ***Difference in priorities:*** Participants in a particular task might have different viewpoints about the proper sequence of activities related with the task on the basis of their respective perspectives of the required priority.

(c) ***Administrative procedures:*** Disagreements can arise over how a project or task will be managed. For example, differences might arise because of the nature of the manager's reporting relationships, assigning of responsibilities, levels of administrative support, etc.

(d) ***Technical opinions:*** There may be entirely different viewpoints about the 'best way' to accomplish task. For example, the director and the film editor in a movie project may have entirely different viewpoints on how best to achieve a certain effect with the camera.

(e) ***Staffing and resource allocations:*** Conflicts may arise over how various assignments related to a task need to be allocated to different people. One team member can complain that he/she always gets the 'donkey's job' while others get glamorous assignments.

(f) ***Role Conflict:*** Individuals working on a team project face competing demands from their project manager and functional manager. This leads to interpersonal strife and personal stress, which can create a conflict.

(g) ***Costs and budgets:*** 'How much is this task going to cost?' and 'Why is this costing so much?' are frequent sources of disagreement among the superiors and the subordinates. These differences often arise because different individuals estimate costs differently in the face of uncertainty related with future activities.

(h) ***Schedules:*** A constant source of tension in the organisational working is 'How long is this going to take?' The difficulty arises because while developing schedules, managers are dealing with estimates about the future, and the future can seldom be predicted with certainty. At the other extreme, making an effort to take into account all the contingencies or all the things that could happen would take such a long time that the task may not get accomplished within a specified timeframe. Therefore, most of the organisational tasks are a race against time, creating lot of conflict among the people who have to plan and execute them.

A lot of tension and conflict is often generated around the sequencing of events and how much time needs to be allocated to a particular event.

(i) ***Interpersonal and personality clashes:*** Conflicts arise not just over technical issues but also over 'style' or 'ego-centred' issues, like status, power, control, self-esteem and friendship. Such conflicts may be based on differences of departmental or organisational factors, like varying work goals and time horizons.

Stages of Conflict

Conflict evolves over a period of time. This evolutionary process is generally categorised into the following five stages.

(a) ***Potential Opposition or Incompatibility:*** In the first stage, the presence of certain conditions, like difference of viewpoints and priorities, differences in personalities, the size and structure of work groups, barriers to communication, etc. stimulate disagreement or feeling of incompatibility among individuals or groups.

(b) ***Cognition and Personalisation:*** If the conditions mentioned in Stage-I are likely to have a negative impact on the interests of an individual, the conflict reaches the second stage. As a result, the individual develops a feeling of resentment or opposition towards the party responsible for the situation.

(c) ***Intentions:*** In the intentions stage, the parties to the conflict decide upon the action they are likely to take to deal with the conflict. Till this stage the conflict may or may not be evident to outsiders.

(d) ***Behaviour:*** At this stage, the parties involved in the conflict undertake some action to protect or advance their interests which they perceive are threatened by the conflict. As a result, the conflict becomes obvious for the parties involved as well as for other concerned parties.

(e) ***Outcomes:*** In this final stage, the parties interact with each other regarding the conflict. The outcome may have either a positive or a negative impact on the organisation. At this stage, generally the manager's role becomes crucial because he/she has to handle the conflict. The manner in which the manager acts to resolve the conflict has a significant impact on the outcome of the conflict.

The following section describes in detail the strategies and practices that a manager can employ to handle a conflict to ensure that the conflict does not hamper the achievement of organisational objectives.

Managing Conflict and Building Agreement

A manager can try to resolve a conflict and reach an agreement by adopting a variety of strategies, like giving up, smoothing over the disagreement, using threats and punishments, withholding critical resources, etc. A major issue in handling the conflict is to make a decision— whether to persuade another person or department to adopt one's point of view, or to follow theirs.

The Following approaches and practices can be adopted by a manager for managing conflicts.

- ***Providing an expert rationale:*** This approach involves managing a conflict by providing expert reasoning. The power of expertise is such that people generally go along with an individual who is perceived to know what he or she is talking about. But, the following limitations are also associated with this approach.
  - (i) Expert rationale may prove useful within a single functional area. It might not be that effective while leading cross-functional teams as the manager may not have expertise across many functional areas.
  - (ii) A significant problem associated with relying on reason and logic in managing a conflict is that rationality does not always prevail. Logic, data and reason do not always present a solution that is agreeable to both parties. Competing viewpoints by people from different functional areas (computer programming, marketing or financial analysis and production) may not be resolved by logic when their arguments are based on sound but divergent rationales. In such difficult situations, the manager can try the following approaches to build agreements.
- ***Creating a Common Ground:*** An agreement can be built by establishing certain areas on which the involved parties agree to create a common ground. This can be done by asking them questions, like 'On what do both of you agree?' What both of you are trying to accomplish?

  Initially, the manager needs to highlight and emphasise what exists in common between the involved parties and not what they disagree on. Pushing people apart at the start of a dialogue seldom engenders an atmosphere of cooperation. By agreeing on a common ground, people highlight their necessary interdependence. When the success of one person is a function of the success of the other and vice versa, both are more likely to listen and work through the differences than in the situation when the successes of both individuals are viewed as independent of one another.
- ***Enlarging Areas of Agreement:*** The manager needs to build on the areas of agreement by making statements such as 'If you would be willing to do X, then I would be willing to do Y.' This can be somewhat difficult to achieve if the individuals become egoistic and take deeply entrenched positions. That is why, the manager needs to encourage people to find a common ground, common interest and common goal among them, which can guide the negotiation. The process of building up an agreement is facilitated when a manager:

- allows each person to state his or her position without interruption.
- allows a brief period of time for questions of clarification only.
- asks the question, 'How can each of us get what we want?, when arguing is not leading anywhere. This question can transform the argument and the potential deadlock into a discussion and settlement.

- ***Gathering information:*** A conflict can be managed effectively by gathering relevant information. The manager can ask fundamental questions, like 'Is all the information related to the conflicting issue available?', 'Who can resolve the conflict?'.

  Too often managers are trying to solve a conflict that they and the other persons cannot resolve. Discussion with respect to who should be involved in the negotiation is one way of determining what type of information is needed to build an agreement.
- ***Focusing on issues, not personalities:*** It is crucial to depersonalise the conflict. When an individual feels that he/she has to defend himself/herself from personal attack, the response typically takes one of the two forms: either to fight back, which only escalates the disagreement, or to withdraw. In the second case, even if the individuals involved in the conflict agree to an action, they will have no real commitment to follow through once the manager is out of sight. Their energies are devoted to getting back at the individual he/she is fighting with and not on solving the problem.

To focus on issues, not on the personalities involved in the conflict, the manager needs to make the parties future-oriented. By being future-oriented, the manager emphasises building agreement on a future course of action rather than blaming each other for past problems. His/her approach is 'What are we going to do about this? What are we going to do to ensure that this doesn't happen again' rather than 'Who got us into this situation?'

This does not mean that the manager should not explore the past for determining the causes of problems, but it implies that emphasising the past too much often encourages a person to defend his or her actions or blame and make someone else a scapegoat.

The manager can get the job done most effectively when he/she can build agreements which vitalise the individuals. But, if all attempts to build an agreement among the parties involved in a conflict fail to produce the desired results then the manager should take recourse to adopting a negotiation strategy. Management consultant Clifford Bolster[2] observes, 'Negotiation is a process that may be used when logical reasoning has run its course.'

Successful Negotiations of Conflict

Successful managers and team leaders effectively use negotiations to manage differences. Negotiation is a process to reach an agreement that satisfies both the parties and results in a committed follow-through on the solution. The following techniques can be adopted to establish negotiated settlements.

(i) ***Be direct:*** The manager should be a solution-centric person who is clear about his/her interests and needs. He/she needs to act rather than react by approaching the problem rather than avoiding it.

(ii) ***Make prefacing remarks:*** During the negotiation, the manager needs to make prefacing remarks while expressing his intention to work for a solution. 'What I'd like to do is propose.… and 'May I make this suggestion…' . This reduces the ambiguity about his/her intentions.

(iii) ***Avoid argument:*** Arguing during the negotiation reduces the possibility of reaching a solution and gets people off the track of searching and building upon agreements.

(iv) ***Make exchange statements:*** On some occasions, the manager needs to try this as well, 'What seems reasonable to you is reasonable to me.' Exchange statements like these play a pivotal role in the negotiation process because sensitivity to other's perceptions is vital to build an agreement.

(v) ***Know what you want and ask for it:*** If one does not know what he/she wants, he/she can't ask for it. If one does not ask for it, he/she may not get it because it is difficult to read anybody's mind. It is only the assertive expressions of needs, interests and possible exchanges that move the negotiations forward.

(vi) ***Repeat expectations firmly by stating common goal:*** The manager needs to be persistent in stating expectations, wants and needs. One should neither let the other person off too easily nor make it easy for him/her to say no. Building on the common ground makes it possible for the other person to say yes.

(vii) ***Don't justify:*** Too often, justification seems like rationalisation. Rather than justifying, the manager needs to make firm assertions backed by facts when needed.

(viii) ***Avoid irritants:*** Words and phrases, like 'Anyone could see that', 'It's always been done this way', 'My generous offer is….', etc. push the other party into a corner where the only option is to fight or flee. The manager needs to keep the discussion focused on issues and not on personalities, which could irritate others.

(ix) ***Create alternative solutions:*** Imagination is required to use information about what one has, which is desired by the other person, and vice versa. Often this involves numerous 'what if' statements about the things for which negotiation is being undertaken.

By effectively managing and negotiating conflicts, the manager can achieve positive outcomes from the inevitable differences that arise while performing day-to-day operations in an organisational setting.

Managing Conflicts at Different Stages of Project

Conflicts need not be eliminated but managed so as to use them effectively for increasing the overall productivity for the achievement of organisational objectives. Effective management of conflict is essential to avoid a dysfunctional outcome and improve organisational performance.

It has been observed that the intensity of different types of conflict varies over different stages of the project life cycle. The tension points of a particular stage can often be predicted, and consequently the manager can handle them more effectively. Given below is the description of the nature of conflict at different stages of a project along with the methodologies to effectively manage it.

(i) ***Formative Stage Conflicts:*** During the planning phase of a task or a project, most conflicts arise over issues related to schedules, costs, priorities and staffing. At this stage managers have limited control over the factors that affect the issues of conflicts. These factors are: uncertainty of the future, different perspectives and priorities of the team members, functional departments that nominate the team members, etc. Managers can handle the conflicts at this stage by taking the following steps.

- **Prior Planning:** Intensive planning before the project team is incorporated and starts functioning on the project can reduce the probability of conflict.
- **Clarity of Goal:** Keeping the goal clearly in mind and always in front of the team members goes a long way towards minimising disruptive conflicts at this stage. Petty issues are easily overlooked and not taken into consideration if the concerned individuals understand, accept and commit themselves to the challenging goals.
- **Involvement:** Involving all parties that are likely to be affected by the project at the very outset can help a manager avoid the conflict.

2. ***Functional Stage Conflicts:*** As a project enters the phase of chalking out detailed schedules, conflicts arise primarily over timelines, priorities, staffing and technical issues. The manager can handle conflicts of this phase by taking the following steps.
    - **Providing Feedback:** Sharing of information about how the project is progressing by the manager through feedback helps in preventing and managing conflicts effectively.
    - **Celebrating and Rewarding Early Accomplishments:** These encouragements enable the team members to overcome initial problems and be motivated to perform more and focus less on petty issues that can create conflicts.
    - **Frequent Meetings and Status Review Sessions:** These interactions help share information and develop interpersonal relationships that may prove to be useful in preventing and managing conflicts.
    - **Developing the Procedure in Advance:** The manager can develop a procedure to resolve differences beforehand rather than after adamant positions are taken by the team members.
    - **Direct Interaction:** The manager can employ problem-solving techniques that bring people face to face rather than using impersonal processes like circulars, memos, rules and regulations.
    - **Integrating Early without Delay:** The manager should make every effort to integrate various functional groups affected by the project or task as early as possible, if not right at the start.
3. ***Execution Stage conflicts:*** The manager can handle conflicts arising in this main phase of the project or task by taking the following steps.
    - **Keeping everybody Informed:** Conflicts at this stage can be managed by monitoring the work in progress and making continuous efforts to keep people informed.
    - **Resolving Conflict as early as Possible:** Every attempt should be made to resolve the conflicting issues early in the process of the conflict lifecycle.
    - **Involvement:** The emphasis while resolving a conflict should be on ensuring the involvement of all team members from an early stage of the conflict.
    - **Maintaining the Sense of Ownership:** If the team members feel a sense of ownership in the project or task, they will more naturally identify with the project's success and contribute to it rather than being affected by conflicts.
    - **Forecasting and Communicating in Advance:** Thinking ahead and informing all team members in advance about the likely sources of conflict and suggesting likely solutions

that can make the team members less anxiety-prone reduces potential conflicts in the near future.

4. ***Closing Stage conflicts:*** As the end of the project approaches, the manager can handle conflicts by undertaking the following steps:
   - **Maintaining the Focus:** It is important to keep the team members focused on issues, like accomplishment of task, cost and schedule. Letting the team members know what the life will be like after the successful completion of the project also helps in keeping them focused on the goal and lessen the probability of conflict.
   - **Loosening up Tension and Stress:** The manager can reduce the probability of conflict by loosening up tension and stress which develops as the final schedule of deadlines and deliverables approaches.

COORDINATION

To accomplish organisational objectives, a large number of divergent tasks have to be executed that too by a good number of individuals who are working in different departments. No single individual or group can be expected to achieve the goals of the organisation on its own. Hence, it becomes essential that the activities of these different work groups and departments should be harmonised for the effective and efficient accomplishment of overall goals and objectives. The managerial function of 'coordination', which is often termed as the essence of management (Koontz[3], 2008), plays this vital role of ensuring the unity of action among individuals, work groups and departments.

Fayol[4] identified coordination as a distinct managerial function that harmonises the various activities of a firm. But, most of the later management thinkers did not retain coordination as a separate function of management. They regarded it as a necessary component of all other management functions and termed it as the lifeline or essence of management.

Coordination provides the necessary synchronisation between activities, cooperation between departments and people, and harmonisation of their actions in order to achieve the desired objectives by avoiding the duplication and overlapping of actions and the wastage of means and resources. According to Mooney and Reelay[5], 'Coordination is the orderly arrangement of group efforts to provide unity of action in the pursuit of common goals'.

According to Brech[6], coordination is balancing and keeping together the team by ensuring suitable allocation of tasks to its various members and seeing that the tasks are performed with the harmony among the members themselves. Thus, coordination is the unification, integration and synchronisation of the efforts of group members so as to provide unity of action in the pursuit of common goals. It is an implicit and inherent force that is prevalent in all other functions of management (planning, organising, staffing, directing and controlling) and binds them together with one another. It is often said that a manager is an orchestra conductor whose role is to both create rhythm and unity in the activities of group members.

For example, the finance department prepares the budget, the purchase department procures raw materials, the production department processes raw materials into finished products, and the marketing department ensures that the product is sold to the customer. All these departments must function in an integrated manner so that the organisational goal of generating surplus is duly achieved. This can happen only when the purchase department procures raw materials according to the needs of the production department; the production manufactures products according to the needs communicated by the marketing department; and proper budgets are developed by the finance department as per the operations of different departments. Thus, coordination brings synchronisation in different activities and efforts of various units of an organisation so that the planned objectives may be achieved with minimum conflict.

Coordination of Managerial Functions

Coordination in different managerial functions is achieved in the following manner:

1. ***Coordination through Planning:*** Planning facilitates coordination by integrating various plans through mutual discussion and exchange of ideas. For example, coordination between development of financial budget and allocation of resources.
2. ***Coordination through Organising:*** Coordination is the very essence of organising because it plays a vital role in the formation of groups and departments and assigning various activities to the subordinates.
3. ***Coordination through Staffing:*** A manager has to ensure that the right number of personnel with adequate skills and competencies are placed at various positions within the organisation to have the right men on the right job.
4. ***Coordination through Directing:*** A manager has to give orders, instructions and guidance and lead his/her subordinates in a manner that brings harmony among the actions of superiors, subordinates, peers and team members. Then only the organisational objectives can be achieved in an efficient and effective manner.
5. ***Coordination through Controlling:*** A manager can achieve the organisational goals only if the actual performance is in accordance with the pre-established standards.

Importance of Coordination

The importance of the coordination function of management can be understood from the following facts:

1. Coordination is the lifeline of management. It is required in each and every managerial function and at each and every stage. Thus, coordination is the essence of managership for achieving harmony among individual efforts in an organisation for the same goals. In other words, coordination is a key to the success of management and achievement of group goals.
2. The significance of coordination lies in the fact that no organisational work can be performed if there is no synchronisation between the works of various departments.
3. As individuals or departments often interpret similar interests in different manners, so their efforts towards common goals do not automatically blend to bring harmony in the functioning of an organisation. Therefore, it becomes the central task of a manager to reconcile differences in approach, timing, effort, or interest through coordination and harmonise individual/departmental goals with organisational goals.
4. Without coordination a department may perform contrary to what the other department expects from it, although both departments may be working for the achievement of organisational goals.

For example, the production department may produce a good product, but the product may not be as per the requirement of the marketing department.

5. The absence of coordination can lead to dysfunctional conflicts among individuals and departments.
6. With increase in the scale of operations, the significance of coordination becomes even more important due to the following reasons:
   (a) The increase in the number of managerial levels and the vertical division of responsibilities following the increase in size of the organisation necessitate increased coordination.
   (b) There are likely to be more people and work groups which may lead to the problems of communications, wrong perceptions, misunderstanding and clash of interests. Hence, coordinating the activities in a large concern becomes a major task of managers.
   (c) The larger geographical spread of bigger organisations may not permit frequent and close interaction among people. This enhances the necessity and responsibility of managers for coordination.
   (d) The probability of people working at cross-purposes gets enhanced with the increase in the size of business. This happens when the employees of a unit consider their unit and sub-unit goals more important than organisational goals.
   (e) Growth in the size of an organisation often leads to some degree of diversification of business activities. This creates more division and subdivision of activities, which makes coordination more difficult as well as important.

Techniques for Enabling Effective Coordination

The following practices can help the management establish better coordination among different departments of an organisations.

- By outlining a clear purpose, with agreed terms of reference, a message can be sent to one and all about what is important and what must be achieved. This encourages or even forces the concerned individuals to coordinate with one another so that the given goal is accomplished.
- By assigning clear roles and responsibilities to different employees, departments, leaders and stakeholders, an environment can be created in which there is least amount of confusion and misunderstanding. Such an environment, where each individual in the team/project is clear about his/her role, facilitates better coordination among them.
- Establishing an agreed framework (including leadership responsibilities and arrangements for information collection and analysis) and a forum or formal working groups for considering different issues affecting interdepartmental coordination create conditions for effective coordination. Establishing a policy or formal processes to ensure consistency in operations also facilitates coordination.
- Building agreements about plans in advance ensures that the performance is in accordance with plans to a great extent. This creates an environment of greater synchronisation and harmonisation among different activities and individuals.

- Creating interdependency among departments and individuals can also facilitate effective coordination among them as the concerned individuals are forced to cooperate with one another because of mutual interdependency.
- Creating a framework for measuring, reporting and rewarding the collective performance of an organisation encourages individuals and departments to coordinate with one another for achieving organisational goals and not to focus on environmental goals.
- Sharing of information and regular monitoring of the progress also contribute to increased coordination among the concerned employees. If all concerned have access to the necessary reliable information, they can develop better forecasts and plans which enhance the probability of better coordinated efforts. Using appropriate information technology tools, like CRM, ERP, MIS, etc., can also facilitate in establishing a mechanism for sharing of information, which ultimately enables better coordination among different departments in the organisation.

Points to Remember

1. Any gathering, assembly or coming together of two or more persons, which at least constitutes a quorum, assembled in response to a previous notice or mutual agreement for transacting some lawful business of common interest is called meeting.
2. Drucker (2004) identified the following different kinds of meetings: to prepare an announcement or a statement, to make an announcement, one person has to present a report, several or all members present a report, to inform the convening executive, and symbolic meeting.
3. Some of the vital tools and techniques to make the meetings effective are: planning the meeting (setting meeting objectives, establishing quorum, determining who is going to be responsible for what, developing an effective agenda, arranging things required for the meeting, deciding the venue and time of the meeting), making detailed preparations for attending the meeting, conducting the meeting effectively (opening remarks, announcing the purpose of the meeting at the beginning, focus on the agenda, encouraging exchange of ideas, being time bound, taking notes, proper record-keeping, signatures of the members present on the minutes of the meeting, guidelines for the leader), closing the meeting effectively (summarising what has been agreed upon in the meeting by itemising what will happen next and who will perform each step and when each step will be completed, positive ending with effective and appropriate closing statements).
4. Conflict is a perceptual issue that arises as a result of a disagreement over goals or on the means to be adopted to attain them. It arises when individuals or groups having different viewpoints recognise the differences.
5. A conflict is neither good nor bad, rather the outcomes of a conflict can be positive or negative— it all depends upon how the concerned managers and the subordinates handle it.
6. Conflicts may be classified into two broad categories on the basis of: the parties involved (intrapersonal conflict, interpersonal conflict and intergroup conflicts), and the outcome of the conflict (functional conflict and dysfunctional conflict).
7. Conflicts can arise over the following points of contention: execution of tasks by cross-functional teams, difference in priorities, administrative procedures, technical opinions, staffing and resource allocations, role conflict, costs and budgets, schedules, interpersonal and personality clashes.

8. A conflict evolves over a period of time in different stages.
9. The following approaches and practices can be adopted to manage the conflict: providing an expert rationale, creating a common ground, enlarging areas of agreement, gathering information, focusing on issues not personalities.
10. The following techniques can be adopted to establish negotiated settlements: being direct, making prefacing remarks, avoiding argument, making exchange statements, knowing what one wants and asking for it, repeating expectations firmly by stating common goals, not justifying, avoiding irritants, and creating alternative solutions.
11. The nature of conflict varies at different stages of a project and can be managed with appropriate methodologies. The formative stage conflicts can be managed by: prior planning, clarity of goal, and involvement. The functional stage conflicts can be managed by providing feedback, celebrating and rewarding early accomplishments, frequent meetings and status review sessions, developing procedure in advance, direct interaction, integrating early without delay. The execution stage conflicts can be handled by keeping everybody informed, resolving conflict as early as possible, involvement, maintaining the sense of ownership, forecasting and communicating in advance. The closing stage conflicts can be handled by maintaining the focus and loosening up the tension and stress.

Review/Discussion Questions

1. What are the characteristics of different types of meetings?
2. How can meetings be made effective?
3. What are the typical problems that are associated with meetings? Can a manager handle them?
4. How can the minutes of meeting be developed in an effective and efficient manner?
5. What is conflict? Is it good or bad?
6. What are the various types of conflict?
7. What are the different sources of conflict?
8. What are the various stages of conflict?
9. How can the conflict be managed and agreement built among different members in an organisational setting?
10. Suggest different strategies for successful negotiation of a conflict.
11. How can we manage the conflicts that occur at different stages of a project?

Field Exercises/Class Exercises/Group Projects

1. One or two groups of students can be asked to convene meetings. For these meetings, planning will be done by the group members whereas the other students will attend the meeting. The group members have to develop a proper agenda, and plan to organise the meeting and give sufficient information to the attendees so that they can make a meaningful contribution in fulfilling the meeting agenda. The group members should make an attempt to apply the different principles suggested in the chapter to make the meeting effective. One of the group members should also develop the minutes of the meeting.
2. The teacher can divide the class into two groups and provide them in writing two different plans with respect to a class tour. The plan of one group is not revealed to the other group. Both groups are briefed separately

about the merits of their plans and then advised to get their plan agreed upon by the other group whose plan should not be accepted. Each group is given strong reasons in favour of its plan to defend its position. Then the two groups are asked to come together to discuss their plans. Initially the faculty can build the conflict between the two groups to a certain level and then ask the students to resolve it by applying the principles of conflict management suggested in the chapter.

On the Internet

1. Log on to http://www.workshopexercises.com/Meetings.htm to learn how to conduct meetings and to get to know your meeting attitude.
2. Visit http://www.factivities.com/communication/jeopardy.html to play a management game 'Jeopardy' to understand the role of communication in conflict management.
3. Visit http://www.workshopexercises.com/Leadership_continued.htm#L8 to undertake an activity 'Battling Negativity' to identify strategies to deal with negative employees.

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Chapter 18

Controlling

It is not enough to have great qualities; we should also have the management of them.

—Francois de La Rochefoucauld

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand the characteristics of effective control systems
- comprehend the importance of control
- explore the control process and know different types of control
- comprehend the interrelationship of planning, organising and control
- understand the relationship between real-time information and real-time control

INTRODUCTION

Business organisations are regularly involved in numerous activities and operations. It is important that these activities are performed in accordance with the requirements of internal or external customers. Hence, it becomes a key responsibility of the managers to ensure that whatever is being performed by their subordinates would finally achieve its desired objectives within allocated time, agreed upon budget and as per the desired quality standards. The multifaceted responsibility of a manager highlights the criticality that is associated with the controlling function of management.

'Controlling' or 'control' is an important function of management. In the managerial context, the controlling function refers to the process of measuring the actual performance against the established standards and then correcting significant deviations, if any. The controlling function is used to ensure that the performance is in line with the established standards. It also ensures that the organisational objectives are achieved by implementing the plans devised to attain them.

Control is used to check that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given and the principles which have been laid down. Its objective is to point out mistakes so that they may be rectified and prevented from recurring (Fayol[1], 1949). Control refers to checking the current performance against predetermined standards contained in the plans to ensure adequate progress and satisfactory performance (EFL Brech[2], 1959).

Control is often confused with supervision. Supervision is only a part of control. Supervision involves regular monitoring of the performance to identify deviations, if any, from the established standards for performance. But, control starts much before supervision and continues even after supervision. In addition to supervision, control also includes the efforts to establish standards, and plan and execute actions to ensure that the performance is in accordance with the standards.

CHARACTERISTICS OF EFFECTIVE CONTROL SYSTEMS

The implementation of effective control systems is extremely vital for all forms of organisations to ensure delivery of plans in an optimum manner. The control systems must be designed properly so that they are effective in ensuring that the controls are applied by the right level and at the right time. The characteristics of effective control systems are described below.

(a) ***Establishing right standards:*** Managers need to translate organisational goals in terms of specific and operational objectives. Consequently, some quantitative standards have to be established for different objectives so as to guide and set a target for the operational executives. GE regularly monitors the performance of its managers against three criteria: profits, market share and cash generated. Then it generates a list of the best six and the worst six managers measured by variance against profits. This information is shared among managers so that the entire team has a fair idea how managers in different parts of the global system are doing.

(b) ***Guide for measurement:*** Most organisations would like to know what they have accomplished to review their performance regularly. Standards act as a guide for determining what needs to be measured and reported to. For example, if an organisation has an objective to increase its market share by 10 per cent, it should have a mechanism to measure the market share for that product category.

(c) ***Realistic and Flexible:*** When control standards are inflexible or unrealistic, employees get demotivated sometimes and may not focus on the organisation's goals. Controls need to have some in-built flexibility so that the implementing manager can use some form of discretion on the basis of the need of the situation.

(d) ***Preventive:*** The control systems should be ideally such that they prevent the problems that they were designed to detect and not to cause new problems because of their rigidity and complexity. The output of a control system may not be optimum if it is more of a detecting mechanism instead of being a preventive one. The control systems should be directed at the process that manufactures the output and at the output itself. If all the controlling functions are directed at the output, then they might be leading to a corrective effort rather than a preventive one.

(e) ***Cost Effective:*** The cost of implementation of a control should be reasonable. It should not exceed the benefit that the control is likely to deliver. It is for this reason that instead of hundred percent testing or inspection, organisations prefer to undertake sampling at regular intervals to determine whether the process is in control or not. A cost benefit analysis must be done before implementing any controlling measure in the organisation.

(f) ***Clarity of Responsibility for Delivery:*** Individual responsibilities for delivering the desired performances must be made clear well in advance to one and all in the organisation. Ambiguity with respect to responsibility is one of the major sources of the failure of a control system.

(g) ***Reflecting Organisational Pattern:*** The control system should be designed by taking into consideration the nature of the organisation structure. It is not enough to know what is going wrong, but it should also be known who is responsible for taking corrective action for which deviation and that too to what extent.

(h) ***Timeliness:*** An effective control system is the one that provides timely information on a regular basis so that corrective actions if necessary can be initiated and implemented in a timely manner. If the information is delayed beyond a certain point, it can have disastrous or very damaging consequences.

(i) ***Ease of Understanding:*** Guidelines, standards and information systems must be simple to comprehend so that they are easily understood by one and all. This ease of understanding helps the concerned employees to follow guidelines and standards without difficulty and ambiguity.

(j) ***Forward Looking:*** The control system should be examined regularly so that it is not only appropriate in the present context but would also be relevant in the future.

(k) ***Based on Facts:*** The controlling actions should be based on accurate information about performance. The controlling actions that are initiated on assumptions and hunches may not be appropriate.

(l) ***Emphasis on Exceptions:*** Managers cannot control all the activities. Control devices should preferably be such that they call managerial attention only to the exceptions.

(m) ***Motivating:*** The design of a control system should be such that it should not de-motivate the individuals involved while ensuring the effective implementation of plans.

IMPORTANCE OF CONTROL

The importance of the control function is reflected in the following managerial tasks.

(a) ***Bringing Focus:*** After the plans have been developed, the top management must determine the key areas that need to be monitored and controlled on regular intervals to analyse the successful implementation of the plans. A clear definition of the parameters of control gives the desired managerial focus to monitoring. The control parameters also enable employees know their performance targets. Employees understand the language of measurement. Whatever is measured is considered important by them, and whatever is not measured is not considered of much significance.

(b) ***Ensuring consistency in organisational activities:*** Uniformity and discipline with respect to processes and output in accordance with the needs of the internal or external customers is highly critical for the success of an organisation. The controlling function plays a vital role in ensuring this consistency.

(c) ***Enabling organisational effectiveness and efficiency:*** The real test of a manager's ability is the results he/she delivers. Therefore, the manager has to remain alert to identify factors that might affect the implementation of his plans for achieving objectives. The application of control techniques helps in checking errors and taking necessary actions to eliminate them in a timely manner to improve the employees' performance. The attainment of efficiency in the operations of an organisation is highly dependent on the nature and quality of control techniques that are implemented by it.

(d) ***Providing feedback on the project status:*** Controls provide feedback about the status of an activity or project to the different parties that are participating in that activity, managing it or are affected by it. The feedback influences behaviour and is an essential ingredient in the overall control process.

(e) ***Aid in decision-making:*** Control techniques make managers aware of the problems in a particular area and give them the required information for making decisions so that the recurrence of problems and their effect on productivity are reduced significantly.

(f) ***Maintaining discipline:*** Control techniques help the manager in maintaining discipline among the employees and ensuring that they perform in accordance with the plans. Through the controlling process, the manager takes necessary action to regulate the activities and the overall working of the subordinates and ensures optimum implementation of organisational plans.

(g) ***Input for future planning:*** The output of the control process acts as a key input for the future planning of an organisation. It acts as a vital learning from past experiences for a manager in developing his/her future plans.

CONTROL PROCESS

Fundamentally, the control process in an organisation setting comprises the following steps.

(1) Establishment of standards for performance
(2) Measuring performance
(3) Comparing performance against standards
(4) Developing a report
(5) Taking a corrective action

Establishment of Performance Standards

The first step in the control process is the setting up of clear and specific standards for an activity. These standards should be established for all the operations that are critical to the achievement of organisational goals and objectives.

A standard defines in specific terms what the outcome of an activity or task needs to be. It also includes a statement of conditions for satisfactory performance. In the organisational context, standards refer to operational performance goals, targets, etc. Performance standards are a precise and explicit statement of expected results from a product, service and machine; an individual or an organisational unit. They predetermine the points for which performance is measured and represent a criterion against which results can be examined. Some common areas that are generally depicted in the form of performance standards are described below.

- **Profitability**: It is depicted in terms of Profit after Tax (PAT), Return on Investment (RoI); Return on Equity (RoE) or Return on Capital Employed (ROCE), etc.
- **Market Share**: The market position with respect to competitors in terms of value and volume also acts as a key standard for business organisations.
- **Productivity**: Productivity measures, like efficiency targets, acceptable rejection rates, cost per product, selling cost per product, manhours per unit, etc. guide the operational managers to attain the desired level of efficiency in their operations.
- **Innovation**: Standards can be set for creativity and innovation in terms of time period for a new product to move from the conception stage to market launch, number of new products launched in a particular period, cost in product development, etc. Being efficient in speed-to-market signifies the entire organisation's readiness across all functions to hit the market first, not once but consistently. Car companies in the West got worried by Toyota's 24-month cycle 'from concept to market' as they used to take 36-48 months. When they crunched it to 24-months, Toyota moved on to 18 months. The Boston Consulting Group (BCG) conducted a study among 600 companies globally to see the relative effect of development cost overruns and delay in scheduled time. It was observed that the companies, which overshot their budget by 30 per cent, recorded a 2 per cent fall in profit. The profits of organisations, whose projects got delayed by 6 months, fell by 30 per cent.
- **Product specification standards**: The exact specifications according to which the products should be manufactured need to be determined in advance. These standards determine whether the manufactured product is acceptable or not.
- **Corporate Social Responsibility**: Social audit, safety, health and environment related targets act as key standards in a scenario where organisations want to emerge as socially responsible entities.

Measurement of Performance

Once standards are established, it is necessary to measure actual performance on a regular basis against the established standards. This measurement of performance is undertaken at almost all levels of a business organisation. The measures of performance that are adopted at different levels are described below.

Measures of Company Performance Business performance can be measured and evaluated on the basis of different parameters. Jack Welch recommended that the three key measurements that can determine the successful performance of a business organisation are: employee satisfaction, customer satisfaction and cash flow[3]. The various parameters on which business performance can be measured are listed as follows:

- ***Earnings growth:*** This parameter takes into account the growth in sales revenue, operating profit, etc. for a particular business entity over a period of time.
- ***Returns on invested capital:*** This parameter analyses Return on Equity (ROE) or Return on Capital Employed (ROCE) and Return on Investment (RoI) to assess the returns that a business is providing to its investors.
- ***Stock market performance—Return to shareholders in the form of stock prices:*** The total return to shareholders (TRS) is the thermometer of capitalism. The long-term return to investors or shareholders (the sum of annual increase in the stock price for the corporation and the dividends and special payments distributed to investors) constitutes a key standard for understanding the performance of a business organisation.

Measurement of Operational Parameters The measurement of different operations of a business needs to be undertaken to understand their effectiveness and efficiency. It can be done through the measurement of the entire lot or of a sample. The following four sources of information are generally employed by managers to measure the operational performance.

(a) ***Personal observation:*** Through personal observations or 'management by walking around', a manager tries to assess whether the progress and performance is as per the plan or not. For example, the shop-floor supervisors can personally check the production time and the cost and quality of a product. Similarly, sales managers visit sales offices to personally observe the performance of sales force. At the same time, they can also suggest a remedial action if some deviations are observed.

(b) ***Statistical sampling:*** To understand whether the output is in line with the standards, adequate number of samples from the output can be taken intermittently at pre-decided intervals. These randomly selected samples are measured to draw generalisations about the measurements for the entire lot or the batch.

(c) ***Universal Testing:*** If an organisation wants to be hundred per cent certain that all its goods or equipment are made as per the specification, it can go for the inspection of the entire batch.

(d) ***Experimentation:*** The manager can perform an experiment to ascertain the likely effect of an activity. This is a useful source of information when manager is interested in the before and after scenario to test the efficacy of an intervention.

Table 18.1 Advantages and Drawbacks of Different Measures of Performance

	Advantages	**Drawbacks**
Personal Observation	• Provides first-hand information. • Provides feedback on intangibles such as employee morale, customer reaction, etc.	• Can be subject to personal biases. • Can be time-consuming. • Presence of the observer may be perceived as unwanted interference or micro-management by the concerned employee. • Lacks precision of measurement.
Statistical Sampling	• Statistical methods are applied to select and test the samples. • Cost effective. • Generalisations can be drawn for the entire lot.	• Requires seriousness on the part of operators to select and test the sample. • Certainty is relatively less than universal testing

Universal Testing	• Useful when the manager wants to be hundred per cent certain. • Certainty is more than sampling.	• Can be a costly proposition. • Depicts a lack of faith in the process.
Experimentation	• Employed to determine the effect of an intervention. • More scientific basis to collect information. • Can be conducted in a controlled environment.	• Can be a costly proposition. • May not be possible for all types of situations. • Requires an experiment and control group.

Comparing Performance with Established Standards

In this step of the control process, the manager compares the measures of performance with the established standards to determine whether the actual performance is in accordance with the predetermined or planned performance. It is important to understand the nature and extent of deviations in performance. The deviations that are within the acceptable limits are not a cause of concern, rather they are acceptable and warrant no action. But when the deviation in performance is more than the acceptable limits, some form of corrective and/or preventive action is called for. In such a scenario, the matter needs to be reported to the concerned authority so that the necessary action can be planned and implemented. The superior might call for a detailed report to understand the facts when the matter is brought for his consideration in oral or written form.

Developing a Report

The purpose of the report is to bring clarity about an issue for different stakeholders. The report informs the superiors of the current situation. It may also include recommendations about possible remedial or corrective actions that the superior might take. The awareness and clarity, provided by the report, serve as the basic foundation on the basis of which an appropriate corrective and preventive action could be selected in the next step.

Advantages of Report

- It can prove to be helpful in analysing different facets of a problem in detail.
- It gives a substantial information to the manager to make an intelligent decision.
- It is helpful in interpreting the data provided by the subordinate.

Disadvantages of Report

- Some people have aversion to develop written reports.
- Request for a report by the superior can be perceived as a threat by the subordinate
- Preparation of report is a lengthy and time-consuming process.
- Lots of effort and resources are needed to prepare the report.
- There is possibility of errors creeping into the report.

Types of Reports Reports may be presented in oral, handwritten or computer generated forms. Broadly, there are three types of reports as described below.

(a) ***Oral Reports:*** This report is an oral presentation of the findings about the performance to the manager by the concerned employees in a one-to-one or group meeting.

(b) ***Statistical Reports:*** These reports include statistical data about the performance, which is depicted in a tabular or pictorial chart form. Statistical reports are becoming increasingly popular because of the availability of the softwares that can analyse data and generate line graphs, bar charts and pie charts with ease and accuracy. The pictorial presentation of data facilitates better comprehension of findings.

(c) ***Written Reports:*** Written reports provide comprehensive information as feedback that can be filed and retrieved. Technological advancements in the form of computer-based MIS, CRM and e-mail have brought in transparency, speed and standardisation in preparing written reports. Along with the routine written reports, special or one-time reports are also developed on the areas of concern.

The advantages and disadvantages of different types of report are presented in Table 18.2.

Table 18.2 Advantages and disadvantages of reports on organisation performance

Type of Report	Advantages	Disadvantages
Oral Reports	• Faster way to get information. • Allows for verbal and non-verbal feedback.	• Information can be filtered. • Information may not get documented.
Statistical Reports	• Processed quantified information is available. • Easy to visualise and comprehend. • Effective for showing patterns, trends and relationships.	• Provides limited information as some qualitative facts cannot be presented in this report. • Ignores subjective factors
Written Reports	• Formal form of presentation of findings. • Comprehensive and in-depth analysis of cause and effect. • Easy to file and retrieve.	• Psychological barrier towards writing a report. • Takes more time to prepare. • Flow of information and response might be slow.

Taking Corrective Action for Removing Significant Deviations

The last but most important step in the control process involves taking a corrective action if there are significant variations of performance from the established standards. Corrective action is a managerial activity aimed at bringing organisation performance up to the level of performance standards or creating a situation in which errors or deviations can be brought within the acceptable limits.

To ensure that the performance is as per the standards, managers can choose one of the two possible courses of action: either they can correct the actual performance, or they can revise the standards. These two courses of action are discussed below in detail.

Correcting Deviations

Methods for correcting deviations through a systematic problem-solving approach can be described and implemented in the form of different functions of management explained below.

(a) ***Planning:*** The first step for correcting the deviation consists of the following planning-oriented activities:

- Defining the problem in an unambiguous and specific form.
- Developing graphical representation of the activities related with a problem as a flow-chart to develop a clear understanding of the entire process.
- Collecting facts about the situation to determine various symptoms of the problem.
- Developing theories and assumptions as potential causes of the problem.
- Testing different assumptions to determine the root cause of the problem from among different alternatives that would help to bring performance up to the level of standards.
- Developing a solution to manage the root cause of a problem.
- Identifying problems that might be caused by the implementation of the solution.
- Developing strategies to implement the solution after pilot testing of the solution (if possible).
- Measuring the performance after implementation of the solution
- Holding the gains to sustain the benefits of the solution.

(b) ***Organising:*** There might be a need to perform some of the following organising related activities to correct the deviations:
- Examining the appropriateness of the organisation or team structure and composition.
- Examining the role of organisational issues in the non-fulfilment of standards.
- Clarification of roles and responsibilities.
- Reassignment of roles and responsibilities.

(c) ***Staffing:*** Sometimes the reason for non-attainment of standards might lie in the inadequacy of manpower in qualitative and quantitative terms. Therefore, the manager has to ensure the availability of adequate human resources through recruitment, selection, transfer, promotion, training and development, etc. The following staffing activities may also be undertaken for the achievement of standards.
- Establishing a team in accordance with the problem to correct the deviation. The overall approach is that the problem selects the team and not the vice versa.
- Assigning the roles and responsibilities to different team members in a manner that would help or contribute in the elimination or reduction of the deviation of the performance.
- Additional hiring of human resources.
- Provision of training for skill upgradation.
- Separation or firing of consistently non-performing employees.

(d) ***Directing:*** Most of the time the managerial action to correct the deviation from the standards involve provision of better supervision/leadership, improved motivation and effective communication to ensure that the subordinates agree and commit to deliver an improved performance to achieve the established standards.

(e) ***Implementing:*** The control process can fail if the recommended corrective actions are not implemented properly. A manager's responsibility does not stop with recommending corrective actions; he/she should also ensure that the subordinates are implementing the suggested changes in the right and required manner with full sincerity.

(f) ***Control: Ensuring that the performance is finally as per the standards:*** The manager needs to ascertain that after the implementation of corrective action the performance has been restored to a level that is in accordance with the pre-defined standards. The manager should not assume that the controlling function is complete after the implementation of the planned corrective action. The control process is not completed till it gets verified through measurement that the performance is finally within the acceptance limit of the standards.

Redefining Standards Sometimes, it is quite possible that the observed deviation is not due to lack of performance but as a result of an unrealistic standard. In such cases, there might be a need to revise the standard itself as it cannot be achieved under normal circumstances. The standards become inappropriate due to the following reasons.

(a) The proper standard was not set at the outset.
(b) Initially, the standard was appropriate. But, because of the changes in the business environment, the standard has become unrealistic or inappropriate and needs some modification.
(c) Due to innovations, significantly better performance can be made possible. Therefore, standards need to be raised regularly to meet the ever-growing customer requirements.

To ensure that the standards and their associated performance measures meet future needs, managers must periodically review them. On the other hand, the standards may be relaxed without affecting the quality to save resources. But, managers must ensure that the new control process meets the current needs of the organisation.

TYPES OF CONTROL

Controls can be classified into various types on the basis of the stage or time of time of their implementation, the managerial hierarchy at which they are implemented, and control systems and techniques that are employed for implementing controls. On the basis of the managerial hierarchy, controls can be classified as: strategic control, managerial control and operational control. On the basis of the stage or time of implementation, controls can be classified as: feed forward control, concurrent control and feedback control. And, on the basis of control systems and techniques, controls can be classified as: budgetary control, financial control and inventory control.

Managers need to understand different types of controls so that they can employ the right form of controls to ensure that the performance is as per the standards.

On the Basis of Managerial Level

The classification of controls on the basis of the level of managerial hierarchy is described below.

(i) ***Strategic Control:*** This control measure, performed by the top management, is directed at ensuring the achievement of strategic plans such as organisation's vision, mission, goals and strategies. In other words, the strategic control is concerned with optimum implementation of the overall organisational strategy.

Usually, the initial conception and implementation of a strategy and the achievement of its intended results are separated by a significant timespan. The implementation of strategy requires completion of numerous projects over a period of time. Simultaneously, the business environment of an organisation is also evolving and undergoing some changes. Therefore, strategic controls are necessary to steer the organisation through these events by providing the means for correcting the direction of the organisation on the basis of intermediate performance and new information.

(ii) ***Managerial Control:*** Managerial controls are derived from strategic controls and are implemented by the middle-level management of an organisation, i.e. business heads, division heads, department heads or product/service heads. Managerial controls are designed to measure the performance in terms of the attainment of results by a responsibility centre and the efficient usage of resources for their accomplishment. These controls are exercised after determining whether the targets and objectives for the current quarter of a financial year for a particular business or division have been achieved or not.

(iii) ***Operational Control:*** Operational controls are derived from the requirements of the managerial control system, and they focus on events in a recent or concurrent period. These controls, implemented by the frontline managers or supervisors, ensure that the 'operational' or day-to-day tasks are carried out effectively and efficiently in accordance with the established performance standards. These tasks are measured in terms of specific performance standards (e.g. monthly sales target, productivity per machine-hour, output per person per hour, etc.). Corrective action to align the performance with standards may involve modification of methodology, change in process, provision of training, motivation, leadership, discipline, etc.

On the Basis of the Stage or Time of Implementation

The control process can be implemented before, during or after an event. The classification of controls on the basis of the stage or the time at which they are implemented is described below.

(i) ***Feed-forward Control:*** For really effective and efficient implementation of controls, managers need a control system that warns them well in advance, about the need for a preventive action. Feed-forward controls analyse the input and inform managers of the problems that could arise in the near future so that their occurrence could be prevented. Therefore, it is the most desirable form of control. Since the feed-forward control is future-oriented, it is sometimes referred to as pre-control, pre-action, preventive or preliminary control. Feed-forward controls are implemented through the following practices.

- Use of policies, procedures and rules to limit in advance the activities that could lead to deviations and thus minimise the likelihood of significant deviations.
- Monitoring of inputs (materials, people, finance, time, etc.) so that the outcome of the transformation process is as per the established standards.
- Selection of right employees who are are likely to perform up to the standards. This can be achieved by identifying the necessary job skills and then employing tests and other screening devices to hire people with competency in those skills.

(ii) ***Concurrent Control:*** Concurrent controls, also known as 'steering controls' are the most frequently used control measures. They are employed during the implementation of plans. They are used to regulate the ongoing activities as they can ensure that the activities are performed in accordance with the pre-defined standards. Concurrent controls rely on performance standards, rules and regulations to take remedial measures by monitoring the ongoing employee activity.

An important concurrent control is direct supervision, wherein a manager directly observes the actions of employees and makes an attempt to correct the problems as they occur. Delay is minimal in this form of control as problems can be easily addressed before too many resources are wasted and significant damage is done, which usually happens with feedback controls.

Computers or computer-aided machines have made the execution of concurrent controls quite easy because of the timely information provided by them. Employees continuously monitor the measurements and information provided by the intelligent machines and equipment; if they see that standards are not being met in some area, they make a correction themselves or inform the concerned manager about the problem.

(iii) ***Feedback Control:*** As cited in Figure 18.1, feedback controls measure the results and then compare them with the predetermined standards. The feedback control function begins after an activity has been performed; or a process is completed or a product or service has been produced. Therefore, feedback controls are sometimes called post-action or output controls.

The application of feedback control involves reviewing information relating to an event that is already over to determine whether its performance was in accordance with the established standards. This form of control is exercised to ensure that the final output meets quality standards and to identify any deviations that went undetected earlier.

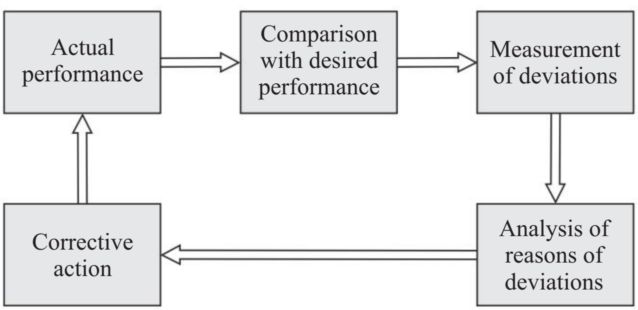

Figure 18.1 Feedback Loop of Management Control

Advantages of Feedback Control: The major benefits associated with the feedback control are described below.

(a) It provides information that facilitates the future planning process by helping a manager to revise the existing plans and formulate new ones.

(b) It is useful for providing information for rewarding employees for their performance.

(c) Final inspections, summary of activity reports and balance sheets are also a form of feedback control.

(d) Feedback informs the manager how much effective the planning effort really was. If feedback indicates an insignificant variance from standards, this is evidence that planning was generally on target. For example, an organisation establishes a goal of increasing its profit by 12 per cent in the coming year. To ensure that this goal is reached, the organisation must monitor its profit on a monthly or quarterly basis to know whether the plans are translating into desired results or not.

(e) It can enhance the employees' motivation by telling them how well they have performed.

Disadvantages or Limitations of Feedback Control: The main drawback of the feedback control is that it provides information about a deviation or problem that has already occurred. This can lead to wastage and tarnishing of the image or reputation of a brand. Secondly, a good amount of time might have passed before taking the corrective action. But, it must be taken into consideration that for many activities, feedback is the only viable type of control available.

To conclude, the feed-forward control is considered a preventive control since it facilitates the implementation of control measures before the activities are performed and deviations actually occur. Concurrent/steering/controls and feedback controls are known as corrective controls since they involve the implementation of control measures while the activities are in progress or after the activities have been performed.

On the Basis of Control Systems and Techniques Managers commonly use five major control systems to ensure that the actual performance meets organisational goals and objectives. These control systems, depicted in Figure 18.2, are budgetary control, financial control, quality control, inventory control and operations control.

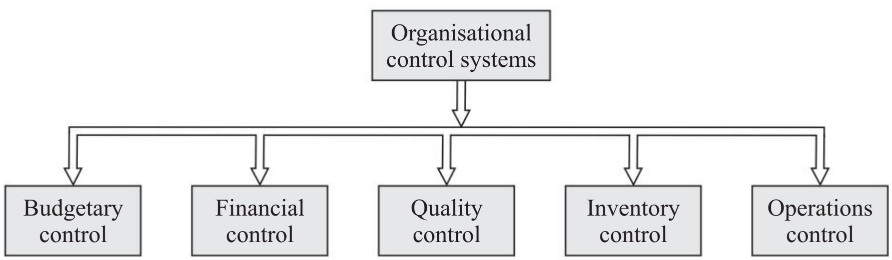

Figure 18.2 Important Control Systems

1. ***Budgetary Control:*** Budget is a written plan for an activity, stating anticipated results and likely investments, either in financial or non-financial numerical terms for a specific future period. It depicts how much an organisation expects to spend (expenses) and earn (revenues) over a particular time period. These amounts are further categorised according to the type of activity or account.

   By expressing the plan in the form of numbers and breaking it into its constituent parts, budget relates planning with the delivery of performance to bring in orderliness and discipline in expenditure of time and money. A budget, in reality, is both a planning tool as well as a control mechanism. Budgets not only help managers plan their finances but also help them keep track of them. Budget can be used by all types of managers as an instrument for control of operations in their domain of responsibility.

   Methods to Develop Budgets: Some methods to develop budget are described below.

   (a) ***Top-down Budgeting:*** Senior managers prepare the budget and provide it to their subordinates to act according to it.

(b) ***Bottom-up Budgeting:*** The figures for potential revenue and expenses come from the lower levels as estimates. These estimates are adjusted and coordinated by the superiors as they move up the hierarchy.

(c) ***Zero-base Budgeting:*** Zero-base budgeting is employed to develop budgets by justifying the projected allocation from the scratch (zero-base) against its contribution to departmental or organisational goals. It is done without taking into consideration how the things were done in the past or without referring to the previous year's budget, which is generally the practice. This is done to have a fresh perspective about the potential activities and to provide a focused identification and control to each budget item.

(d) ***Flexible Budgeting:*** These budgets are developed for situations where external environment is significantly volatile. Managers need to incorporate flexibility to deal with most pessimistic, most optimistic and realistic situations. For example, Shell, a leading petrochemical company, has developed plans with respect to different levels of crude oil prices, which include the highest price as well as the lowest price that, they expect, can happen in a given scenario, and the corresponding possible responses of the company.

Flexibility does not necessarily mean changing the budget as per the situation, but the change is in-built into the budget from its inception.

Types of Budgets: Different types of budgets are explained below.

- ***Revenue and Expense Budget:*** It spells out the plans for the income and expenditure for an organisation or a unit for a stipulated future time-period in monetary terms. It is developed by forecasting sales figures for a particular period and translating them into income. Accordingly, cost estimates are also developed to produce and sell that particular volume of products and services. It is further translated into departmental budgets for determining operating expenses under different heads. This form of budget can provide the control limits with respect to expenses and investments on the one hand, and revenue targets revenue on the other.
- ***Time, Space, Material or Product Budget:*** Time, space, material and product figures, which are usually expressed in their respective units, can be converted into monetary equivalents for budgeting purposes. These budgets, expressed in terms of direct labour hours, physical sales volume or units of production, form the performance standards which guide the operational executives to perform to achieve a desired level of efficiency.
- ***Capital Expenditure Budget*:** Capital budget pertains to outlays of large amounts of investment on plant, machinery and equipment. These budgets guide the senior management in deciding how to allocate vital financial resources and also ensure that they do not exceed the specified limits while making capital investments under the normal circumstances.
- ***Cash or Financial Budget:*** Cash budget is a forecast of cash receipts and disbursements. As the availability of optimum amount of cash is extremely critical for managing the operations of an organisation, detailed information on projected cash-flows need to be systematically presented in the cash budget for planning as well as control purposes.

Effective Budgetary Control Following are the characteristics that determine the effectiveness of budget as a control measure.

(a) To be effective, budget-making must be a joint and participatory exercise between the CEO, chief financial officer and departmental heads. Everyone concerned should ideally endorse it, before it is accepted. Otherwise, it becomes only a statement of intentions and a tool for bargaining.

(b) Flexibility must be in-built into the budget because the future cannot be predicted with accuracy.

(c) Effective Management Information System (MIS) can play a vital role in effective implementation of a budget. Information recorded in big reports is of little use to managers if it is not easily accessible and does not provoke managerial thinking.

2. ***Financial Control:*** Financial controls have a special importance because the financial health is crucial to the survival and growth of a business organisation. On February 26, 1995, UK's oldest and one of the most reputed Barings Bank with a total net worth of $900 mn suffered losses in excess of $1 bn and declared itself bankrupt. This happened due to gross mismanagement of the bank's derivatives trading operations by Nicholas Leeson, general manager of Barings Future in Singapore (BFS). The fall of Barings is a classic example of poor risk management practices, as it failed to institute a proper managerial, financial and operational control system, which proved to be a key reason for the bankruptcy of such a great institution.

Some important financial control techniques that help an organisation determine whether its results are as per the expectations or not are: financial statements and ratio analysis.

- ***Financial Statements:*** Financial statements are developed and updated to reflect how much was spent, how it was spent, and what it obtained. The most common financial statements, used by large as well as small organisations are: balance sheets, income statements and cash flow statements.
- The income statement depicts the outcome of the organisation's operations over a period of time, such as revenues, expenses and profit or loss.
- The balance sheet depicts what the organisation is worth (assets) at a particular point of time, and the extent to which those assets were financed through debt (liabilities) or owner's investment. It shows the organisation's performance and long-term prospects.
- The cash flow depicts the movement of cash to and from the organisation as well as the availability of cash in the organisation at different times. This information helps in managing the cash position of a unit or an organisation.

  Managers use financial statements to monitor the progress of plans and to evaluate the organisation performance. These are also used to compare the organisation's performance in the current year or quarter with its performance in the similar period in the past or with the competitor's performance in the same period.
- ***Financial Ratio Analysis:*** Ratio analysis, a tool of financial and managerial control, examines the relationship between the figures on financial statements (the profit and loss account and the balance sheet) to comprehend the strengths and weaknesses of the organisation.

  A number of ratios can be determined to analyse the performance of a business unit from different perspectives to take a corrective action if the actual performance is not in line with the desired performance. Ratios can be broadly classified into the following four categories.

(a) Profitability ratios measure an organisation's ability to generate profits over a period of time.

(b) Liquidity ratios measure an organisation's ability to generate cash in a short span of time.

(c) Debt ratios measure an organisation's ability to repay its debts.

(d) Activity ratios measure an organisation's efficiency in operations and use of assets.

Figure 18.3 depicts the classification of financial ratios.

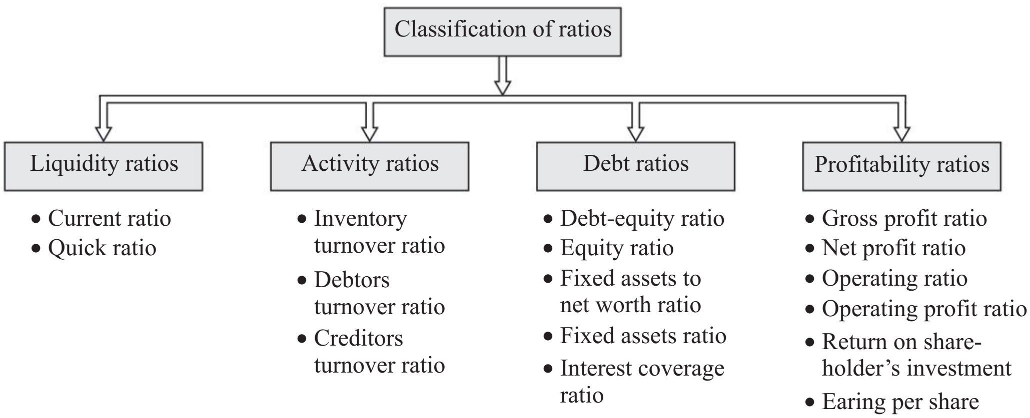

Figure 18.3 Classification of Ratios

Basic Steps to Perform Ratio Analysis

1. Selecting appropriate data from financial statements.
2. Calculating appropriate ratios from the select data, which should meet the objectives of the analysis.
3. Comparing the calculated ratios either with the ratios of the same organisation in the past or the ratios derived from the projected financial statements of the organisation or the ratios of other similar organisations in the same industry.
4. Drawing inferences from the calculated ratios.
5. Making decisions or recommendations from the inferences.

The information derived from ratio analysis can be compared with the standards or the benchmarks. It enlightens the concerned authorities about the variance between what is being done and what was expected for a given period. Serious anomalies or variations may warrant certain actions to reduce these gaps (variances) and to take concrete steps to avoid such variances in the future.

Although ratio analysis is an important means of undertaking financial analysis and implementing the financial and operational control in an organisation, yet it is not an end in itself. It is an instrument, which uses the historical financial figures and then projects the future on the basis of the past. But the future is uncertain and involves a lot of risk and unforeseen contingencies. This reality makes ratio analysis a tool of limited scope and reduces its practicality. Thus, it cannot be used alone to make recommendations for an organisation. Rather the manager should supplement it with other types of tools of financial analysis for a comprehensive and detailed study of the organisation's financial position.

3. ***Quality Control:*** The quality control techniques help an organisation to achieve operational efficiency and customer satisfaction by maintaining and monitoring quality levels. The knowledge of the quality related standards helps the manager and his/her team to prepare a product according to the specifications and market requirements.

   Managements around the world are trying to measure how much successful their organisations have become in achieving product/service quality. For this, they monitor several organisational areas, like cost of poor quality, quality improvement actions taken by the management, etc. The outstanding performance of the Japanese companies with their reliable, high quality and yet low-priced products in a wide range of product categories since the seventies is based on the good planning of quality related controls and their successful implementation.

4. ***Inventory Control:*** This control measure focuses on attaining higher efficiency and operational productivity in material management of an organisation. It is applied to areas like raw materials, work-in-progress, finished goods and goods in the entire delivery chain. The inventory control is becoming increasingly important due to the criticality of cost cutting and elimination of wasteful expenditure in the face of intense price competition. Companies are implementing different types of inventory controls to identify and eliminate all possible wastages and variations in the entire supply chain to be competitive in the market.

   Companies can set annual targets for reduction of inventory levels and the cost of inventory maintenance and then systematically work towards attaining them. This can be achieved by following the appropriate practices and using suitable tools described below.

   (a) ***Just-in-Time (JIT):*** JIT is the goal being pursued by a good number of progressive companies which want to bring in high degree of efficiency in the domain of supply chain management. The aim of this approach is to maintain zero or minimum level of inventory in an organisation by synchronising the supply of assemblies and equipment from the suppliers with their demand in the organisation so that everything is made available as and when it is needed. For example, Sundram Brakes has average order-to-invoice time of 1 day.

   Ohno and Mito[4] stated that JIT occurs when the parts necessary for each step in a process arrive at the exact time and in the quantity needed. There is virtually no staying-time for raw materials, semi-processed components or finished goods. Every internal customer must get what he/she wants at a time when he/she wants it. To achieve that, JIT employs following techniques.

   (i) Standardisation of processes.
   (ii) Total productive maintenance
   (iii) Kanban*: A* card-signalling system that regulates inventory between the process steps by ensuring that workstations on production-lines produce only to card-orders from the internal customers.

   Thus, an appropriate context needs to be created before JIT can be implemented and starts delivering results. U.V. Patel, CEO of Ahmednagar Forgings, rightly said 'The success of

JIT hinges on various factors, like stability of raw material supplies, reliability of power, and so on. It is unlikely that JIT will work in all locations and on all occasions[5].'

(b) ***Radio Frequency Identification and Detection (RFID):*** RFID tags are electronic chips that are pasted on every product in the supply chain so that its movement is automatically monitored from the moment it leaves the producer's works till it reaches the customer. This enables the organisation to assess stocking patterns, understand bottlenecks in the movement of products, track the movement of goods and accordingly plan a corrective action if there are significant variations.

(c) ***ABC Analysis:*** This is a tool to monitor and control the inventory levels by classifying the overall inventory into different categories on the basis of the value of inventory items. According to this system, the A category inventory is of high value and low quantity, the C category inventory is of low value and high quanity, and the B category inventory just lies in between A and C categories. This system advocates that the highest attention should be paid to the A category inventory that might comprise 15 per cent of the volume of inventory but its worth is usually 70 per cent of the total value of the organisation's inventory. By optimally managing the A group inventory significant savings can be realised by the organisation.

(d) ***Economic Order Quantity (EOQ):*** This formula provides an understanding about an order size that will lead to the lowest order cost and inventory carrying cost for a particular type of inventory. By applying this mathematical approach, an organisation can reduce its overall cost by the ordering and carrying inventory to the minimum possible level.

5. ***Operational Control:*** Operational controls are aimed at evaluating the performance of the organisation as a whole and also of its different divisions and departments. These controls generally deal with short-term goals and are mainly exercised by the middle-level management. Budgets and schedules are some of the tools used in these controls. The implementation of the operational control ensures the following results.

- Products and services are produced at the required time.
- The cost incurred to produce a good or service is optimum and as per the budget.
- The desired level of quality is obtained.

Different types of operational controls are described below.

- ***Productivity:*** The level of productivity of an organisation significantly influences the amount of surplus that can be generated by it. Productivity can be defined as the ratio of output to input, within a time period, with due consideration to quality. Therefore, productivity implies the aggregate of effectiveness and efficiency in individual and organisational performance. Productivity can be employed as a control tool if there are pre-decided goals in the form of productivity standards.

  The productivity control can be expressed as:

  $$\text{Productivity} = \frac{\text{outputs}}{\text{inputs}} \text{ (within a time period and with due consideration to quality).}$$

  Productivity = Efficiency + Effectiveness

  Efficiency is the achievement of the ends with the least amount of resources or doing the things in a right manner. On the other hand, effectiveness refers to the achievement of objectives by doing the right things or by doing the things that should be done. The manager can achieve and enhance productivity by the following actions.

- Increasing output with the same input.
- Decreasing input levels but maintaining the output level.
- Increasing output levels and decreasing the input level at the same time to change the ratio favourably. At the same time, not letting the quality suffer.

In real-life situations, managers are usually faced with a scenario where the achievement of effectiveness is possible with a slight sacrifice of efficiency or vice versa. Therefore, managers need to develop skills to bring an optimum balance between effectiveness and efficiency for raising productivity to the best possible level.

The most important contribution of management in the 20th century was the fifty fold increase in the productivity of the manual worker in manufacturing after Fredrick Taylor first looked at work and studied it. Since then, it has been going up steadily at the rate of 3% per annum compounded[6].

- ***Lean Manufacturing:*** Lean manufacturing is a philosophy or an approach to manufacture goods and services with a very lean organisation structure and by employing the least amount of resources. Krishna Mahesh, the CEO of Sundram Brakes Ltd., describes it as, 'Lean is all about supplying the exact quantity at the quality and price at the exact location. That's also the goal of a world-class vendor.' The essence of lean manufacturing lies in the following practices[7].
    - Producing with as few people as possible.
    - Using as little inventory as possible.
    - Producing as little wastage as possible.
    - Ensuring that each production stage processes exactly as much as the next stage wants and exactly when it wants that.
    - Reducing order-to-shipment times.
    - Reducing or eliminating non-value-adding activities.
    - Flexibility to create variety in products without too much change-over costs.
    - The lean philosophy should be integrated in every facet of the organisation: sourcing, manufacturing, marketing, strategic planning, etc.
    - Creating a people, process and technology environment in which lean manufacturing philosophy can be implemented.
    - Categorization of suppliers as self-certified and non-certified suppliers. The self-certified supplier gets long-term purchase order and supplies against orders received over the telephone directly to the shop floor. The supplies of a non-certified supplier are subject to stringent quality-checks.
    - Providing continuous training to vendors and employees to fit in with the lean manufacturing system.
    - Self-inspection and doing away with quality supervisors and making workers responsible for quality management.

6. ***Other Special Measures of Control:*** Some other well-known methods adopted for control are described below.
   - ***Special Studies and Analysis:*** These studies are undertaken as special projects to analyse a certain process and improve it, if required. Usually these studies are done as a project to rectify a chronic problem by eliminating its root cause.
   - ***Internal and External Audits:*** These audits are undertaken to understand the financial position as well as the operational strength and weakness of the organisation. Recommendations are developed if significant variations are observed from the desired performance levels.
   - ***Marketing Control:*** Marketing controls refer to measures that are undertaken to analyse the sales and marketing performance of a company. They suggest changes if there are significant variations in areas like market share, customer satisfaction goals, new product development and delivery. They establish the standards that are used to monitor the progress towards the achievement of marketing goals of the organisation. These controls are usually employed by organisations which:
     (a) Face intensive market place competition.
     (b) Have distinct products/services or divisions for which the performance can be measured and evaluated separately and some specific marketing plan can be developed, if desired.
     (c) Turn different divisions into profit centres. The performance of these divisions is evaluated on the basis of their percentage contribution to the total corporate profits. At Matsushita, various divisions are evaluated according to the profits each division generates. On the basis of these evaluations, corporate managers make decisions about future resource allocations, strategic changes and other activities that may need attention.
   - ***Human Resource Control:*** Human resource control helps managers evaluate the performance of his/her human resources by examining the quality of new personnel, performances of current employees and identification of the need for their development for attainment of organisational objectives. It focuses on ensuring that the organisation has the right people in the right jobs at the right time, who are performing in accordance with their potential and the needs of the organisation. As the quality of the organisation's human resources and their performance, to a large extent, determines the organisation's overall effectiveness, controlling human resource is very crucial. The two most common methods of human resource control are:
     (a) Performance Appraisal: Performance appraisal helps a manager monitor the performance of individuals and work groups and compare their performance levels with the predetermined performance standards. This can guide the managers to initiate appropriate corrective actions, if needed. Effective performance appraisal systems can be developed by following the steps outlined below[8].
       - **Step I**: Develop understanding of the organisation's mission, goals, values and strategic plan.

- **Step II**: Identify skills that employees should have to achieve them.
- **Step III**: Link employees' evaluation with the skills required by the organisation's mission and strategic plan.
- **Step IV**: Develop concrete descriptions of skills and traits in writing (master profile) of what an employee should actually do to exemplify each skill.
- **Step V**: Use the master profiles as the yardsticks for appraising all employees to remove the subjectivity by employing them as a standard scale to assess how often an employee behaves like a master— occasionally, sometimes, frequently, or regularly.

(b) Human Resource Ratio: Human resource control is also implemented through the application of certain human resource ratios like: absenteeism, employee turnover, etc. Measuring performance on these parameters helps the organisation understand the efficacy of different policies and programmes related with the human element.

Human resource control techniques are extremely important in the people-intensive service sector organisations, like IT and BPO organisations because their performance and success is highly dependent on their human resources.

- ***Management by Exception (MBE):*** MBE is a control tool in which deviations that are of serious nature and have gone beyond permissible limits need to be brought to the manager's notice by the subordinates. The essence of this technique is that all routine matters are handled by the subordinates themselves, whereas the managers concentrates on non-routine or exceptional issues. This empowers the subordinates and saves time of the manager to concentrate on more important issues.

  MBE can be implemented when the subordinates are competent and there is a mutual trust and confidence between the manager and the subordinates. It can be implemented in two ways:

  (a) The subordinate informs the superior as and when he/she considers that the matter is important enough to be brought the manager's notice.

  (b) The rules are set to ensure that all deviations beyond a particular level are brought to the notice of the manager.

  - ***Critical point Control:*** If the nature of manager's job is complex and involves a number of activities, then it may not be possible for him/her to control each and every activity. Rather he/she is required to concentrate upon those activities which are critical. Such type of control is critical point control. It includes careful analysis of each and every activity to determine critical activities where the managerial control might be warranted.

INTERRELATIONSHIP OF PLANNING AND CONTROL

Planning and control are so closely related to each other that they have often been referred to as 'Siamese twins', implying that they are almost inseparable. This integration of planning and control is prevalent at all levels, starting from the strategic level to the operational level.

Information systems play an important role as a bridge between planning and control. An information system not only communicates the standards set by the planning function to implement the control function but also provides vital information from the control function to be used as an input for the planning function. The interrelationship of planning and control, that is manifested as an iterative cyclical process, can be understood from the following facts.

(a) ***Controlling is Dependent on Planning:*** No controlling action can be undertaken in the absence of clearly laid out plans. Deviations in the controlling function can only be identified and corrected if there are properly laid out plans in the form of standards. If a manager does not set targets and goals through planning, then there is no basis to take a controlling action.

(b) ***Planning is Influenced by Control:*** Most of the plans are formulated by taking into account the information provided by previous controlling actions and the nature of deviations observed in the past.

(c) ***Design of Control Standards during Planning:*** Another integrative characteristic of planning and control is the practice of designing control standards during the planning process. For example, sales plans are stated in terms of performance targets, and manufacturing plans in terms of labour standards and usage of raw materials per unit. Any plan would not be that appropriate if it did not take into consideration setting up of standards on the basis of which the control action would be subsequently performed.

(d) ***Integration at Concerned Employee Level:*** There is an increasing acceptance of the practice to involve the persons responsible for results in the planning for results. This integration is reflected in various management approaches, like 'Management by Objectives'. This approach is based on the principle that human beings will self-direct their effort, exercise self-control and responsibility, use their creativity in the service of goals to which they are committed. And one method to develop the commitment of individuals towards implementation of goals is to involve them in their planning.

REAL-TIME INFORMATION AND REAL-TIME CONTROL

The latest technological tools, like Customer Relationship Management (CRM), Management Information System (MIS), Enterprise Resource Planning (ERP), etc. along with widespread availability of the Internet are creating a possibility that the managers involved in controlling tasks are provided with real-time information.

But, the important question is whether real-time information can lead to real-time control? Although the initial reaction of the majority of people might be 'yes', yet the truth is that real-time information can bring in transparency and efficiency but may not lead to real-time control most of the time. The reason is that real-time information can inform the manager about a deviation from the established standards, but the real journey of the control function starts after the detection of the deviation. This information is merely a starting point that would activate a trigger for a series of activities for planning and implementation of corrective or preventive action to tackle the reported deviation.

The manager has to undertake the following steps after receiving information about the existence of a significant deviation from the standards:

(a) Developing different theories with respect to the causes of deviation.

(b) Testing these theories by collecting data to determine the real/root cause of the deviation.

(c) Developing a solution to the root cause of the problem.
(d) Pilot testing the solution to determine its effectiveness and taking care of other implementation issues.
(e) Resolving implementation issues if the solution appears to be appropriate.
(f) Implementing the solution.
(g) Measuring the performance for evaluation of the post-solution scenario.
(h) Follow-up to ensure effective implementation by one and all by taking care of cultural issues and minimising the resistance to change.
(i) Ensuring the sustainability of the solution so that the gains are held over a period of time.

Thus, it is evident from the steps cited above that real-time information is not a solution in itself. It is just a beginning to be followed by a number of steps that need to be handled effectively to produce effective controls. Organisations are socio-economic systems with lot of human elements affecting the selection and implementation of corrective and preventive actions. Effective manager is the one who can use information pertinently to design the most appropriate corrective or preventive actions in the most effective and efficient manner and then implement them in a systematic manner.

Points to Remember

1. Controlling refers to the process of measuring the actual performance against the pre-established standards and then correcting significant deviations, if any, to ensure that the performance is in line with the established standards.
2. The control process comprises these steps: establishment of standards for performance, measuring performance, comparing performance against standards, developing a report, and taking a corrective action.
3. The characteristics of effective standards are: these are expressed in quantitative terms; these should define the desired quality and quantity within a specific budget cost and time frame.
4. To ensure that the performance is as per the standards, managers can either correct the actual performance or revise the standard.
5. On the basis of the managerial level at which controls can be exercised, these are classified as: Strategic controls, and Managerial or Operational controls. On the basis of the stage or time at which controls can be exercised, they can be classified as: Feed forward, Concurrent and Feedback controls. And, on the basis of different control systems and techniques, they can be classified as: Budgetary, Financial and Inventory Controls.
6. The strategic control, performed by the top management, is directed at ensuring the achievement of strategic plans like, the organisation's vision, mission, goals and strategies.
7. The managerial control, implemented by the middle-level management, measures the performance in terms of the attainment of results by a responsibility centre and the efficient usage of resources for their accomplishment.
8. The operational control, implemented by frontline managers/supervisors, focuses on events in a recent or concurrent period and ensures that the operational tasks are carried out effectively and efficiently.

9. The feed-forward control informs the manager of the problems that could arise in the near future so that their occurrence could be prevented.
10. Concurrent controls or 'Steering controls' are employed while the implementation of plans is going on to regulate the ongoing activities.
11. Feedback controls take place after an activity has been performed, therefore they are sometimes called post-action or output controls.
12. Five major control systems that are commonly used by managers are: budgetary control, financial control, quality control, inventory control and operations control.
13. Budget is a written plan for an activity, stating anticipated results and likely investments, either in financial or non-financial numerical terms, for a specific future period.
14. Budget can be developed through: Top-down Budgeting, Bottom-up Budgeting, Zero-base Budgeting, and Flexible Budgeting approach.
15. Different types of budgets are: Revenue and Expense Budget; Time, Material or Product Budget; Capital Expenditure or Cash Budget.
16. The important financial control techniques to determine financial health of an organisation are: financial statements and ratio analysis.
17. Financial statements, like balance sheets, income statements and cash flow statements, are developed to reflect how much was spent, how it was spent, and what it obtained.
18. The financial ratio analysis examines the relationship between the figures on the financial statements to comprehend strengths and weaknesses of an organisation. These ratios can be broadly classified as: profitability ratios, which measure organisation's ability to generate profits; liquidity ratios which measure an organisation's ability to generate cash; debt ratios which measure an organisation's ability to repay its debts; activity ratios which measure an organisation's efficiency in operations and use of assets.
19. The quality control techniques help an organisation achieve operational efficiency and customer satisfaction by maintaining and monitoring its quality levels.
20. The inventory control focuses on attaining higher efficiency and operational productivity in the material management of an organisation in areas, like raw materials, work-in-progress, finished goods and goods in the entire delivery chain. The tools for inventory control are: Just-in-Time (JIT) and Radio Frequency Identification and Detection (RFID).
21. Operational controls are aimed at evaluating the performance of the organisation and its different divisions and departments. The main operational controls are productivity and lean manufacturing.
22. Other special measures of control are: Special Studies and Analysis, Internal and External Audits, Marketing Control, Human Resource Control (Performance Appraisal, Human Resource Ratio), Management by Exception (MBE), and Critical Point Control.
23. Planning and control are so closely related to each other that they have often been referred to as 'Siamese twins', implying that they are almost inseparable. This integration of planning and control is prevalent at all levels starting from the strategic level to operational level.
24. Real-time information may not lead to real-time control most of the time because real-time information can inform the manager about the existence of a deviation from the standards, but this information is a

starting point that would require a series of activities for planning and implementation of corrective or preventive action.

Review/Discussion Questions

1. What is control and why it is important?
2. What are the characteristics of effective controls and control systems?
3. Outline the process through which controls can be implemented effectively.
4. What are the characteristics of different types of standards? How can we make the standards effective?
5. What are the mechanisms to align performance with standards?
6. What are the different types of control?
7. What is budget? What are the various types of budgets? What are the different methods to develop budget?
8. Outline different budgetary, financial and operational controls.
9. Critically analyse the role of financial ratios as an instrument of control.
10. Why have operational controls, like quality control and inventory control, become so important and how they can be achieved?
11. What is the interrelationship among planning, organising and control?
12. What is the relationship between real-time information and real-time control?

Field Exercises/Class Exercises/Group Projects

1. 'Are examinations appropriate controls?' – If no, then how can they be made more relevant controls?
2. Students should suggest suitable controls for their institute to measure its performance against pre-established standards and take corrective action in case of significant deviations.

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Case Study

How to Control the Global Supply Chain

Health officials all over the world were ensuring the removal of white rabbit candies from the store shelves so that children should not get this popular brand of Chinese candies. They had to do this because the milk used to make the candy was adulterated with melamine, an industrial chemical that imitates protein. A Chinese dairy company, the Sanlu group based at Shijiazhuang that supplied the adulterated milk, created global alarm tens of thousands of miles away in a large number of countries.

This adulteration, which affected 54,000 children worldwide and killed three, has been found to cause kidney stones in the babies. As a result country after country was banning Chinese milk products, and it might take years before they regain their credibility and market share. This shocking incident has not only posed many questions to organisations, governments and consumers, but also offered valuable lessons for the corporate world.

The candy recall is the latest reminder that how much important it is for the companies to manage their entire supply chain in this highly interconnected world. A globally integrated product is only as good or bad as the weakest link in its supply chain. Therefore, companies must accept greater responsibility for overseeing their supply chains because ultimately their brands and financial health are at stake and there is also a serious threat of human loss.

Many reputed FMCG multinational companies sourced milk products from China to manufacture ice cream, yoghurt, cookies, candies and dozens of other foods and beverages. Although they source milk products from China, this information does not figure on the labels of their products. The candy incident has raised a question for them as well.

Melamine was earlier discovered in China-supplied pet food that killed many household pets. In the past also, there have been a series of scandals involving sub-standard toothpastes, lead paint in toys and contaminated medicine—all these have led to fatalities. The products had to be recalled. The blame for a globally integrated product that causes harm frequently comes to the country that is responsible for the introduction of the spurious ingredient resulting in adulteration.

Questions for Discussion and Analysis

1. What lessons does the candy crisis offers for the corporate world and other stakeholders?
2. How should a company implement the control function in a globally integrated context?

Section D

Introduction to Select Approaches and Applications of Management

Chapter 19

MBO and TQM: Systemic Approaches to Management

Management by objectives works if you first think through your objectives. Ninety per cent of the time you haven't.

—Peter Drucker

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand MBO and the benefits and limitations of MBO
- know the different steps in the MBO process
- comprehend quality and quality management
- explore Total Quality Management and the TQM process
- comprehend the advantages and disadvantages of TQM
- know about the most coveted quality awards

INTRODUCTION

Although objectives have always been used by managers and leaders since ancient times, yet Management by Objectives (MBO) was first popularised by Peter F. Drucker as the basis for a management system in his 1954 book *The Practice of Management*[2]. He crystallised the MBO concept by synthesizing various influences and advancements in thinking, which had already been conceived by management thinkers like Taylor, Fayol, Davis, Gulick, Urwich and others before 1954. Subsequently, other authors, managers and consultants, like George Odiorne and Dale D McConkey, made a substantial contribution in establishing MBO as a tool of management around 1965[3].

Many leading organisations made an attempt to manage their working through MBO by giving objectives an important place in their scheme of things. But so far, this vital tool has evoked a mixed response regarding its role in the corporate success. If there are success stories, then at the same time there have also been numerous failures.

DIFFERENT ASPECTS OF MBO

MBO is an integrated management system for managing the entire organisation by aligning the whole managerial effort with specific performance goals that are tangible, measurable, time-bound, and are established through a participatory approach. In this approach, the progress is periodically reviewed in accordance with the pre-decided specific goals and rewards are allocated on the basis of the progress. Drucker suggested that the managers at every level should participate in the formulation of objectives as this would create a better understanding of the broader aims of the company and also enable the managers understand how their own specific objectives relate to the overall company goals.

Heinz Weihrich and Harold Koontz[4] define MBO as 'a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed towards the effective and efficient achievement of organisational and individual objectives.'

Characteristics of MBO

Various thinkers and practitioners approach the concept of MBO in entirely different ways: as a philosophy, an appraisal tool, a motivational technique and a planning and control device. However, MBO has characteristics of all these approaches. Its basic philosophy can be summarised as consisting of the following key elements.

(a) It is a comprehensive managerial system that integrates many key managerial activities in a systematic manner for effective and efficient achievement of organisational and individual objectives.
(b) MBO focuses on results and not on activities and processes.
(c) It focuses on the accomplishment of specific objectives which are set through participation of the employees to engage, empower and motivate them.
(d) The managers delegate tasks by 'negotiating a contract of goals' with their subordinates.
(e) Organisational goals and objectives are specific and that too for an explicit time period so that their achievement can be verified and the degree of gap can be clearly assessed.

(f) Specific objectives for each member are derived from organisational goals and objectives.

(g) Periodic performance appraisal and evaluation is undertaken to assess the achievement of objectives in accordance with the plans.

(h) Specific goals are not only used as controls but also to motivate the employees because these promote managerial self-control.

(i) In the MBO system, there are three types of main objectives:
   - o Routine objectives
   - o Improvement objectives
   - o Innovation objectives

The Systems Approach of MBO

Organisations comprise a set of diverse managerial subsystems, like divisions, departments, production lines and shifts, which need to be integrated so as to form a unified system. Organisational objectives are an ideal platform to integrate these diverse and somewhat distinct sub-systems and key managerial activities through the MBO process. Research findings have suggested that to be effective, MBO has to be viewed and implemented as a comprehensive integrated system.

Application of MBO

Although MBO is practised by the leading MNCs of the world, like Canon Production System, Intel Corporation, etc. yet its success as a tool is dependent on the situation in which it is applied. Empirical findings have suggested that the MBO approach is more appropriate for the following organisations.

(i) Knowledge-based enterprises where staff is competent and has good technical knowledge.

(ii) Organisations which have the motivated manpower so that they set the right kind of objectives that are challenging.

(iii) MBO is also used by the chief executives of multinational corporations (MNCs) for their country managers abroad.

Steps in the MBO Process

The MBO process is conceived and implemented through the following steps.

(a) ***Developing overall organisational goals in specific terms:*** First, specific, measurable and time-specific objectives are decided for the entire organisation through participation of different levels of management. Goals and targets are set by taking into account the company's strengths and weaknesses and the available opportunities and threats.

(b) ***Translating organisational goals into sub-unit goals for clarifying organisational roles:*** Specific goals for various divisions, departments and sub-units are derived from organisational goals and objectives through individual discussion between the superior and the subordinate to determine the role, responsibility and job description of the subordinate.

(c) ***Setting the Subordinates' Objectives:*** The subordinate's objectives are established through his/her participation to come to a common agreement. This exercise involves defining the following things:

- The subordinate's or employee's short-term performance targets in specific measurable terms to define what he/she can or should contribute.
- Formulation of action plans to address the following issues.
  - Identifying the problem areas with respect to achieving specific objectives.
  - How the operations can be improved?
  - What changes need to be made and can be made?

(d) ***Establishing checkpoints to measure progress:*** The milestones or timelines are established in agreement with the subordinates to review whether the desired objectives are being achieved at the required pace or not.

(e) ***Implementing and maintaining self-control:*** Rather than being subjected to the control of the superior, the subordinate is expected to be self-motivated due to engagement and empowerment to perform his/her role in a committed manner.

(f) ***Conducting periodic reviews of the plans:*** Meetings between the superior and the subordinate are organised to discuss the subordinate's progress towards targets and appraise his/her performance.

(g) ***Feedback:*** Discussions between the superior and the subordinate are held at the end of a defined period to assess the results of the subordinate's efforts in the light of the pre-defined objectives. Though performance appraisal is the last step of the MBO process, the feedback provided during this stage is used as input for developing new objectives.

Benefits of MBO

Peter Drucker[5] outlined the purpose of MBO in his own words as: 'What the business enterprise needs is a principle of management that will give full scope to individual strength and responsibility, and at the same time give common direction of vision and effort, establish teamwork and harmonise the goals of the individual with the common will. The only principle that can do this is management by objectives and self-control.' Some benefits associated with MBO are discussed below.

- ***Effective management:*** As MBO lays emphasis on planning through participatory approach and focuses on results, not just on the process, it helps in the overall improvement of management of the organisation. Secondly, MBO not only advocates setting up of specific goals but also facilitates periodic review, evaluation and control.
- ***Clarity in organisational action:*** MBO identifies the key result areas where organisational efforts are needed and then designs the roles and responsibilities of different positions in the organisational structure. This enables achievement of the objectives in the key result areas in an effective and efficient manner.
- ***Encouraging commitment for attainment of organisational goals:*** The MBO process gives the employees the opportunity to participate in setting their own objectives in consultation with their superiors. This not only gives them a chance of having their ideas included in the planning but also provides them a clear picture of their area of discretion or authority. They can also review the performance together with their superior. This whole process of management through participation creates commitment in each and every employee.

- ***Professional satisfaction:*** MBO attempts to fulfil the higher-order needs of recognition and achievement. Individuals can derive a lot of professional satisfaction in the organisation setting by setting their own goals and stretching themselves to achieve them. As performance appraisal in the MBO approach is based on agreed upon goals and predefined roles and responsibilities in a rational manner, the employees are assured that they will be judged impartially. All these factors create a better overall working environment which can provide a high degree of professional satisfaction to the employees.
- ***Establishment of effective controls:*** Specific and verifiable goals help the managers determine what should be measured. As deviations and performance gaps can be easily known, the controlling function can be performed effectively by the manager. The approach of measuring performance against an employee's own goals aids in motivating the employee for adherence to standards, which makes the implementation of controls easier.

Limitations of MBO

In spite of a good number of benefits cited above, MBO has its own share of problems and weaknesses. Some limitations of MBO are discussed below.

- ***Failure to educate employees about MBO philosophy:*** MBO is a holistic managerial philosophy. It takes time and effort for making everyone in the organisation understand the basic philosophy of MBO, its implementation process, corresponding benefits for the organisation and its role in appraising the performance of employees. Therefore, it requires considerable time in preparing a fertile ground for its implementation. A good number of organisations cannot wait for a long time and straightway go ahead to implement MBO. In this situation, MBO either does not deliver the expected results or might prove counter-productive.
- ***Goal-setters not provided with adequate guidelines:*** Many organisations ignore the importance of the need for providing adequate guidelines to their managers and employees for setting goals. These guidelines are essential for the effective implementation of MBO. Managers must understand what is the planning premise, major policies of the company, corporate goals, business goals, their unit goals and how their individual goals will contribute towards achieving the organisation's goals. Organisations desiring to implement MBO need to make an all-out effort to explain to one and all the process of effective goal-setting and the guidelines that are related with it. Failing which, all employees may not be in position to set optimum goals.
- ***Difficulty in setting appropriate goals that are optimum and measurable:*** MBO is based on verifiable goals which would require right amount of stretch or challenge to achieve them. However, it might be quite difficult for everyone to set such goals. If unrealistic goals are set, it can lead to unethical behaviour.
- ***Establishment of easily attainable goals:*** Due to the participation of the subordinates and the concerned manager in the goal-setting process, it is quite possible that some people may try to act safe and conservative while setting the goals. They may set such goals that they perceive they can easily achieve. These goals may not be the optimum goals.
- ***Stress on short-term goals:*** The emphasis of MBO seems to be on the attainment of short-term goals. If long-term goals are in contradiction with short-term goals, then the managers generally

give preference to short-term ones to attain quick results. As a result, there is always the danger of achievement of short-term goals at the cost of long-term goals, which may not be in the long-term interest of the organisation. Therefore, the top-level managers should ensure that short-term goals are set in such a manner that they contribute to the achievement of long-term goals of the organisation.

- ***Inflexibility:*** The managers should be open to consider changes in their own objectives when there is revision of the organisational planning premises, objectives and policies. If they do not, their goals might become irrelevant or less meaningful in the changed situation. However, in actual implementation, the managers are often unwilling to change the goals that they have once set for themselves.
- ***Unethical practices in pursuit of objectives:*** If objectives are given too much importance, then some people might adopt some unethical practices in pursuit of objectives. The management needs to ensure that the employees attain their objectives in an ethical manner.
- ***Can be stressful for employees:*** MBO can also be self-defeating as it can create pressure on individuals to set very challenging goals to impress their superiors and then stretch their limits unduly to perform. This can increase undue stress upon them.
- ***Lack of strong top management commitment:*** MBO like other systemic tools of management can falter without strong, continual commitment from the top management. This can happen due to the employee resistance to change. The employees generally perceive any new management intervention as a new fad to control and derive more work from them.
- ***Perceived as threat:*** Increased measurability and accountability because of MBO's emphasis on measurable objectives can be perceived as a threat by some managers.
- ***Incompatibility with sudden changes:*** MBO cannot successfully address the issue of responding to sudden changes and obstacles quickly. The rigidity of established plans might act as a bottleneck if the changed scenario requires an approach that is drastically different from the existing plans and objectives.

QUALITY

Quality has been one of the most important issues that business organisations have focused on in the second half of the 20th century. It has been taken with such seriousness by the professionally managed organisations that quality has become a basic expectation of the customer and a key ingredient for success in the present-day hypercompetitive scenario.

Before discussing the concept of Total Quality Management, it is important to understand different perspectives in which quality has been approached by different quality gurus and management thinkers at different points of time. Some of these perspectives are discussed below.

- ***Product Perspective:*** From the product perspective, quality originally meant that the concerned product was perceived to be 'working properly or as required' during its normal usage by the customer. Subsequently, it was defined as 'conformance to the specification', meaning that the product should be developed exactly in accordance with the pre-decided and agreed upon specifications.

- ***Customer's Perspective:*** The customer's perspective to quality defines the quality of a product in terms of its ability to act as a solution to the customer needs. According to this approach, quality represents all the features of a product or service that affect its ability to meet the customer needs. The desired features may include, performance, appearance, availability, delivery, reliability, maintainability, cost effectiveness and price. If a product or service meets the needs of the target market, it can be termed as a quality product, otherwise consumers believe it to be as sub-standard.
- ***Producer's Perspective:*** From a producer's point of view, quality represents doing the right thing in the right manner in the very first attempt without rework or rejection. Thus, the focus of quality movement from the producer's perspective is also on eliminating or minimising the cost of poor quality. From this perspective, the customer not only refers to the final user (the external customer) of the product but also different constituents of the value chain (internal customers) who use the inputs provided by a department to perform a process on them in the process of manufacturing the final product.
- ***Process Perspective:*** Quality was initially perceived from the perspective of the output or the finished product, but in the present-day scenario quality is associated more with the process of creation of a product or service that would automatically assure the quality of the output. This approach believes that if the process to produce a product can be controlled effectively within acceptable limits then the product will automatically be of the desired quality.
- ***Human Perspective:*** Quality has recently been associated with various human dimensions as well. Some thinkers believe that quality is related more with the attitude of the people involved in producing products and services. If the people believe in quality in their everyday lives, then their approach towards professional life would automatically be that of quality. Therefore, some experts prefer to approach quality in a more holistic manner as a way of life (quality of work life).

From the different quality perspectives cited above, it is evident that the discipline of quality is approached in entirely different ways by different experts. The multiplicity of approaches to quality led to the emergence of a new quality concept— 'Total Quality Management (TQM)'. This concept aims at managing comprehensive manner by integrating different perspectives with respect to quality.

Quality Management

Quality products or services cannot be produced on a regular basis merely by chance. An organisation-wide systemic effort needs to be made by all concerned in the organisation to ensure that the final output is automatically a quality product almost every time. For this to happen there has to be in place a properly managed system, a controlled production process and a systematic effort, which ensure that quality products are produced.

Quality management is a system that is concerned with planning, organising and controlling different activities with an aim of ensuring that the products and services produced by an organisation are fit for their purpose and meet the specifications. Quality management has the following two main constituents.

1. ***Quality Control:*** Quality control is a traditional way of managing quality. It includes checking and reviewing the output that has been produced through inspection and testing to determine

whether the output is as per specifications or not. Organisations might opt for hundred per cent testing or go ahead with periodic random sampling to know whether their goods or services are of the desired quality or not. Quality control is mainly about 'detecting' a defective output rather than preventing it. Therefore, it can also be a somewhat expensive process as the corrective action is taken only after the defective output is produced.

The focus of quality control is more on the output than on the process which produces the output. This is a reactive approach to quality rather than a preventive one. Hence, in recent years, business organisations have focused on quality management through quality assurance. In quality assurance, the process to manufacture a product is designed in such a manner that the requirement of quality control diminishes significantly.

2. ***Quality Assurance:*** Quality assurance refers to designing the production or delivery process in such a manner that minimises the chances of the output not meeting the desired standards. The focus of effort in case of quality assurance is on the product and process design stage.

   The basic principle of quality assurance is that if the processes and procedures used to produce a product or service are specifically planned or tightly controlled, then quality will be 'built-in'. As a well-managed production process is much more reliable, there is relatively a lesser need to inspect the production output (quality control). In case of quality assurance, hundred per cent inspection of the output can be replaced with the periodic sample testing.

   Quality assurance goes much beyond the production process within a manufacturing unit. It also involves developing close relationships with customers and suppliers to ensure that the entire value chain produces exactly what the customer requires. The suppliers in the production process should understand what is exactly required (standard) and then deliver the same by eliminating or minimising or at least keeping the variance within the acceptable limits.

Establishment of Quality Culture

Quality needs to be integrated into all aspects of the functioning of an organisation if it wants to emerge as a world class company. Progressive organisations have adopted quality as a way of life. Tom Peters[6] has described the following twelve attributes or traits of a quality revolution in the corporate sector in his book *Thriving on Chaos* (1987).

1. ***Management's obsession with quality:*** There is a vital need to back up the emotional commitment towards quality with practical action by the top management on a consistent basis. The top management should demonstrate through actions that quality should not to be sacrificed at any cost. It has to ensure that in the efficiency-effectiveness trade-off, effectiveness should not become a second fiddle.
2. ***Passionate systems:*** Organisations fail either because of a passion without a system, or a system without a passion. Everyone should rally behind the quality movement in the company.
3. ***Everyone is trained for quality:*** Every person in the company should be extensively trained with respect to the importance of quality and the effective employment of different quality related tools to attain it.
4. ***Measurement of quality:*** What is measured gets done. A facts-oriented approach should be adopted so that data is regularly collected to test various theories. Hunches and assumptions should

be replaced by a systematic problem-solving approach, which is based on collection of data to perform the root cause analysis.

5. ***Quality is rewarded:*** A quality-based incentive compensation need to be developed to encourage people to demonstrate quality-oriented behaviour.
6. ***Multi-function teams:*** Quality circles at the level of workers or cross-functional teams for executives and managers should be instituted to enable the people affected by a quality problem to solve it as a project with a concerted effort.
7. ***Small is beautiful:*** Small incremental improvements are easy to conceive and implement as compared to larger interventions which usually take a long time and still their outcome is relatively uncertain. Cause and effect is easily evident in the case of small improvements, which gives boost and encouragement to all involved. Small contributions, but in large numbers, can be of great significance. So organisations need to constantly find opportunities to introduce them.
8. ***Create endless 'Hawthorne' effects:*** Organisations need to introduce new goals, new themes and new events every twelve to eighteen months to break the complacency that might be created by the organisational success, and give new challenge and direction to the employees and other stakeholders.
9. ***Parallel organisation structure devoted to quality improvement:*** Organisations need to create a flexible structure of dynamic cross-functional quality teams that are established for the execution of a project and then are dismantled. These teams can be spearheaded by a cross-functional quality council at the top management level.
10. ***Involvement of all stakeholders:*** All value chain members including suppliers, distributors and customers should be a part of the organisation's quality process. Joint improvement teams need to be constituted to integrate and improve quality across the entire value chain.
11. ***When quality goes up, costs go down:*** There is a wrong perception that quality comes at a cost. In reality, quality improvement is a primary source of cost reduction. Quality consciousness in an organisation is a first step to eliminate or reduce the cost of poor quality.
12. ***Quality improvement is a never ending journey:*** All quality is relative and dynamic. What was great yesterday might not be good enough tomorrow. Each day, each product or service is either getting relatively better or worse, but never stands still. Organisations need to develop the philosophy of continuous improvement as part of their work culture.

Total Quality Management

Total Quality Management (TQM) is a modern-day integrated and holistic approach to quality management. In essence, it is a kind of business philosophy— a comprehensive and structured approach to organisational management, which emphasises the need for all parts of a business system to continuously look for ways to improve quality of products and services. It is done through ongoing refinements in the form of small projects that are implemented through cross-functional teams by adopting a participatory approach.

TQM can be defined as a structured system for satisfying internal and external customers and suppliers by integrating the business environment, continuous improvement and breakthroughs with the development, improvement, and maintenance cycles while changing the organisational culture.

The International Organisation for Standardisation (ISO) has defined TQM as: 'TQM is a management approach for an organisation, centred on quality, based on the participation of all its members and aiming at long-term success through customer satisfaction, and benefits to all members of the organisation and to society.' —ISO 8402:1994.

Total Quality Management is the organisation-wide management of quality. The expression 'total quality' signifies comprehensive dimensions of quality. It includes 'quality of return' to satisfy the needs of the shareholders, 'quality of products' to serve the needs of the customers, 'quality of process' to improve the quality of work life and boost the morale of the people involved in production and delivery by reducing wastage, rework and rejection, and by improving productivity and providing financial and psychological rewards. At a function to mark the introduction of the Six Sigma quality system, Azeem Premji addressed Wipro's employees, 'Just as the Wipro value system is never to be compromised on, quality too is in the same league. If anyone doesn't fit in with this philosophy, they are welcome to look for alternate careers[7].'

Although TQM originated in the manufacturing sector, it has been adapted for use in almost every type of organisation involved in the manufacturing, services and tertiary sectors.

TQM Process

TQM as a process is divided into four sequential steps (popularly termed as PDCA cycle) described below.

(a) ***Plan:*** In the planning phase, a cross-functional team is constituted by the quality council in accordance with the project to be executed. Or, the project team selects and defines the problem to be addressed, develops a flow chart of different activities related with the problem, collects the relevant data to create an understanding of the symptoms of the problem, develops and tests theories and ascertain the root cause of the problem.

(b) ***Do:*** In the doing phase, the project team develops and implements a solution to the problem that has been taken up as a project.

(c) ***Check:*** In the checking phase, the project team confirms the results after the implementation of the solution. It carries out a before-and-after data comparison to ascertain whether the problem has been solved or not, and if yes, then to what extent. The team also tries to create conditions that can ensure the gains are held for a long term.

(d) ***Act:*** In the acting phase, the project team documents the results achieved, informs others about the process changes, tries to leverage the learnings from the successful completion of the project to other processes or units of the organisation and makes recommendations for the problem to be addressed in the next PDCA cycle.

In Japan, the implementation of TQM constitutes the following four approaches.

1. ***Kaizen:*** It is an approach or philosophy that focuses on 'continuous improvement in different business processes'. When Wipro Fluid Power adopted the Kaizen approach to quality in 1996, its production lead times reduced from 36 days to 26 days; re-work reduced by 60 per cent; chargesheets against employees came down from 20 to nil; and dismissals from eight to nil. Productivity per employee shot up from Rs. 4.60 lakh in 1993-94 to Rs. 11.50 lakh in 1995-96[8].

2. ***Atarimae Hinshitsu:*** It represents the philosophy that 'things will work as they are supposed to'. So, if a process is designed to produce a certain level of wastage, it is quite likely that it will do the same.
3. ***Kansei:*** It is an approach to create improvement in the product by examining the manner in which the users apply or use the product.
4. ***Miryokuteki Hinshitsu:*** It represents the viewpoint that 'things should have an aesthetic quality'.

Advantages of TQM

TQM has few short-term advantages, but most of its benefits become evident in the long term after its consistent implementation in an organisation over a period of time. In large organisations, it may take few years before the following long-term benefits are fully realised from the implementation of TQM.

(a) ***Improved Quality:*** A major objective of TQM is to reduce variation from every process so that a greater consistency of effort is obtained[9] (Royse, D., Thyer, B., Padgett D., & Logan T., 2006). The reduction in variation results in the production of goods as per the pre-established standards in the very first attempt without rework and rejection.

(b) ***Higher Productivity:*** Eliminating errors and doing the things right the very first time reduce cost, save time and resources and enhance the overall productivity.

(c) ***Customer Loyalty:*** By providing quality products and services, a business can deliver better value to its customers, thus increasing the probability of retaining the customers over a period of time. It is a well-known fact that serving an existing customer is much more cost-effective than creating a new customer. Also, a satisfied customer voluntarily acts as an unpaid salesperson of the company.

(d) ***Goodwill:*** The overall result in the form of a quality product or service may lead to a greater customer delight and the improvement of an organisation's public image. The TQM philosophy requires the company to maintain the quality not only in its products but in all aspects of its business. This approach leads to a better interface with different stakeholders and the improvement of the company's image over a period of time.

(e) ***Fostering Team Spirit:*** TQM's extensive use of cross-functional teams to manage different projects develops a culture of teamwork in the organisation. The interdependencies created by the execution of projects through the team structure strengthen the team spirit among the employees.

(f) ***Improved Quality of Work Life:*** TQM provides an organisation a systematic problem-solving opportunity and increases the quality of work life of all employees as the stress and additional effort created by rework and rejection can be reduced significantly.

(g) ***Enhanced Creativity:*** The cross-functional teams are empowered to make a difference by identifying and implementing innovative solutions to chronic problems. This encourages the employees to display their creativity while solving organisational problems.

(h) ***Increased Morale:*** The implementation of TQM in letter and spirit can create an organisational atmosphere of excitement and sense of accomplishment, which can improve the morale of the employees.

(i) ***Employee Engagement:*** Due to the extensive involvement of the employees in the planning and implementation of the projects, they develop a sense of belongingness as they feel that they are an important part of the organisation. When the employees feel that they are an integral part of the organisation, they enjoy the work more, which may further enhance the service quality.

Disadvantages of TQM

In spite of all its great benefits, TQM is perceived to have the following disadvantages.

(a) The TQM approach may not seem to be that appropriate to a manager who faces a situation that requires a quick response.
(b) The TQM approach with its emphasis on teamwork may not be easily accepted and assimilated in those organisations which have a culture of rewarding individual employees for delivering superior performance. The team approach of TQM can deter people who want individual evaluation of their performance.
(c) TQM may make the simple approach to quality appear to be a bit complicated by presenting the whole thing in the form of technical terminology.
(d) Too much emphasis on standardisation also has its own cost in terms of discouragement of creativity and implementation of novel ideas to improve productivity.
(e) Functional managers who have to spare limited human resources for cross-functional team projects feel that their core responsibility gets negatively affected because of TQM. Due to this, they indirectly discourage the participation of their key resources for TQM programmes and assign only those employees who they feel are least required or who in their perception are likely to contribute the least for departmental activities. Thus, appropriate people may not be assigned for the implementation of TQM, which can derail the entire process.
(f) Statistical analysis and committee structure can slow down the organisational momentum, and can consume too much time and resources of the organisation and its employees.
(g) TQM calls for a cultural transformation which, like any other change, is likely to face some resistance from the employees. So without the commitment of the top management and effective implementation of change management, TQM may not get institutionalised on its own with the help of training programmes and persistence of consultants.

QUALITY AWARDS

To encourage and reward the implementation of systematic quality movement in an organisation, different quality rewards have been instituted globally. These awards outline a systematic process to apply, qualify and compete for them. Although the objective remains the same, yet the emphasis and the process orientation may vary from one award to another. The three highly recognised and coveted quality awards in the world are described below.

(a) ***Deming Prize:*** It was established in Japan in 1951 by the Union of Japanese Scientists and Engineers (JUSE). The award was instituted to recognise the efforts and contributions of Dr. W.E. Deming in spreading quality consciousness in Japanese companies and to encourage the continued implementation of the statistical quality control movement in Japan.

The Deming Prize is not just a recognition of product quality. It is the recognition of the organisation itself. According to Deming Award's approach, the quality measures have to be applied not only for the products but also for the systems, operations and processes companywide at all levels of manufacturing over the years. Therefore, it is most difficult to qualify for the Deming Prize as it involves a rigorous selection process which includes the application of statistical quality control tools from the lowest work level. Sundaram Clayton became the first Indian Company and the fourth non-Japanese company to win the Deming Prize in 1998 for company-wide quality control.

Quality in Action at Sundaram Clayton: Journey to Win the Deming Prize

Sundaram Clayton adopted the following measures that enabled it win the Deming Prize:

(a) Appointing a Japanese quality control consultant under whose guidance it integrated Deming's ten parameters into four streams of its quality practices: policies, processes, products and people.
(b) A Company-wide detailed quality policy was formulated which laid emphasis on delivering quality that totally met customer expectations through total employee involvement and continuous improvement in every sphere of activity.
(c) The quality policy was integrated into all the constituents of the organisational value-chain. The policy framework clearly outlined the objectives of employees at all levels, right from the CEO to the machine operator.
(d) Through training and promoting employer-employee relations, every employee of the company was made a custodian of quality. Quality was made everyone's job and was not just the management's responsibility.
(e) The quality initiatives began at the product design stage itself and the customers were involved to participate in the design and testing stages of the products to be supplied to them.
(f) Product features were tailored accurately to meet customer needs, with strong emphasis on reliability, serviceability and durability.
(g) Cellular Manufacturing: It gave up the typical process module system and adopted the product module system to ensure that quality standards and problem-solving were made more product-specific rather than being specific to a part of the process. As a result a team of workers became responsible for complete product lines such as compressors, actuators and valves, not just for specific component of the process.

Source: Radhika, A.N. (2004). 'Sundaram Clayton—Winning the Deming Prize', Case Folio, The ICFAI University Press, April 2004, pp. 54-64.

(b) ***Malcolm Baldridge National Quality Award:*** The Malcolm Baldridge National Quality Award and the Baldrige National Quality Program were established by the US Congress in 1987 to give impetus to the quality movement in United States of America. The Baldrige Program and Award were established after the enactment of the Malcolm Baldrige National Quality Improvement Act of 1987 (Public Law 100–107). The Baldrige Award, envisioned as a standard of excellence to help US organisations achieve world-class quality, was presented for the first time in 1988.

The objectives of this annual award were to promote quality awareness, to recognise quality and business achievements of US organisations, and publicise these organisations' successful performance strategies. This was done with an overarching goal to facilitate communication and sharing of information on best practices among US organisations of all types.

This highest honour for innovation and performance excellence in America is presented annually to US organisations in manufacturing, service, small business, education, healthcare, and non-profits by the President of the United States. It is the only formal recognition for the performance excellence of US organisations given by the President of the United States.

The programme and award were named after Malcolm Baldrige who served as the United States Secretary of Commerce from 1981 to 1987. The Malcolm Quality Programme and Award are designed and managed by the National Institute of Standards and Technology (NIST), an agency of the US Department of Commerce in conjunction with the private sector. Internationally, nearly 80 quality programmes are modelled after the Baldrige programme, including one established in Japan in 1996.

To receive Baldrige Award, an organisation must have a role-model organisational management system that ensures continuous improvement in the delivery of products and/or services, demonstrates efficient and effective operations, and provides a way of engaging and responding to customers and other stakeholders. The criteria for the award are designed to help organisations improve their performance practices, capabilities, and results by focusing on two goals: delivering the ever-improving value to customers and improving the organisation's overall performance. Organisations apply for this award by submitting details about their achievements and improvements in seven key areas: leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; workforce focus; process management; and results.

The following steps are undertaken for the selection of the recipient for the Baldrige Award:

- **Step I**: The receipt of the duly filled applications for the award.
- **Step II**: Each application is evaluated independently by Board of Examiners, which writes observations relating to the Scoring System.
- **Step III**: All applicants are put through a Consensus Review. A team of examiners, led by a senior examiner, conducts a series of reviews, first through a secure website and eventually concluded through a focused conference call. The purpose of these reviews is for the team to reach a consensus on comments and scores that capture the team's collective view of the applicant's strengths and opportunities for improvement based on the inputs from the Independent Review.
- **Step IV**: After the Consensus Review process, the Panel of Judges selects applicants to conduct site visits based upon the scoring profiles.
- **Step V**: One of the examiners on the Consensus Team edits the final consensus report for the candidates who are not selected for Site Visit Review, which becomes the feedback report to be sent to those applicants.
- **Step VI**: Site visits are conducted for the highest-scoring applicants to verify that the information in the application is correct. It is also used to clarify any uncertainty or confusion that the examiners may have regarding the written application.

- **Step VII**: The team of examiners prepares a final site visit scorebook on the basis of the findings of the site visit.
- **Step VIII**: Applications, consensus scorebooks, and site visit scorebooks for all applicants receiving site visits are forwarded to the Panel of Judges.
- **Step IX**: The judges make final recommendations on which applicants should receive the Award.
- **Step X**: After the judges' review and recommendations of Award recipients, the Site Visit Team leader edits the final site visit scorebook, which becomes the feedback report for the shortlisted candidates.

An October 2001 study on the economic impact of the Baldrige National Quality Programme, prepared for NIST by Albert N. Link and John T. Scott, conservatively estimated the net private benefits associated with the programme to the economy as a whole at $24.65 billion. When compared to the social costs of the programme of $119 million, BNQP's social benefit-to-cost ratio is 207-to-1.

(c) ***European Foundation for Quality Management (EFQM) Award:*** The EFQM Excellence Award has been designed and instituted by the European Foundation for Quality Management (EFQM) for helping organisations in their drive towards being more competitive. EFQM is a not-for-profit membership foundation that has been in existence for twenty years and has over 600 members.

This award approaches quality on deeper and profounder organisational dynamics and processes by focusing on organisation's vision and organisational/psychological dynamics integrated with QMS. It is Europe's most prestigious award for organisations. The EFQM Excellence Model aims at achieving sustainable excellence in all aspects of performance. It is based on the premise that excellent results with respect to performance, customers, people and society are achieved through a leadership driving policy and strategy, that is delivered through people partnerships and resources, and processes.

It is a non-prescriptive framework based on nine criteria. Five of these are 'enablers' and four are 'results'. The 'enabler' criteria cover what an organisation does. The 'results' criteria cover what an organisation achieves. 'Results' are caused by 'enablers' and feedback from 'results' help improve 'enablers'. Thus, EFQM Excellence Model is a practical tool to help organisations establish an appropriate management system by measuring where they are on the path to excellence; helping them understand the gaps; and then stimulating solutions. This model can be used by organisations in the following ways:

1. To develop their vision and goals for the future in a tangible, measurable way.
2. To identify and understand the systemic nature of their business, the key linkages, and cause and effect relationships.
3. To recognise their most successful customer experience (internal and external) and promote them to achieve the organisational target guided by their mission statements
4. As a diagnostic tool for assessing the current health of the organisation.
5. To balance their priorities, allocate resources and generate realistic business plans.

Over the years, a number of research studies have investigated the correlation between the adoption of holistic models, such as Organisational Integrated Quality (OIQ) and EFQM Excellence Models, and improved organisational results. The majority of such studies show a positive linkage. One of the most comprehensive of these was carried out by Dr. Vinod Singhal of the Georgia Institute of Technology and Dr. Kevin Hendricks of the College of William and Mary[9].

Conclusion: MBO and TQM are not merely tools that can just be transplanted in any organisation to deliver excellent results. They are a philosophy and holistic approach to manage the entire organisation. Their success is based on not what they are but how they are applied.

Points to Remember

1. MBO is an integrated management system to manage the entire organisation by aligning the managerial effort with specific performance goals that are established through a participatory approach, and then periodically reviewing and rewarding the performance in accordance with the pre-decided specific goals.
2. The MBO process involves the following steps: developing overall organisational goals in specific terms, translating organisational goals into sub-unit goals for clarifying organisational roles, setting the subordinates' objectives, establishing checkpoints to measure progress, implementing and maintaining self-control, conducting periodic reviews of the plans and provision of feedback.
3. The concept of quality has been approached from these perspectives: Product Perspective, Customer's Perspective, Producer's Perspective, Process Perspective and Human Perspective.
4. Quality management is a system that is concerned with planning, organising and controlling different activities with an aim of ensuring that products and services produced by an organisation are fit for their purpose and meet the specifications. It has the following two main constituents: Quality Control and Quality Assurance.
5. Quality control includes checking and reviewing the output that has been produced through inspection and testing to determine whether the production is as per specifications or not.
6. Quality assurance refers to designing the production or delivery process in a manner which minimises the chances that output will not be as per the standards.
7. TQM is an integrated and holistic approach to quality management. It is a business philosophy— a comprehensive and structured approach to organisational management, which emphasises the need for all parts of a business system to continuously look for ways to improve quality of products and services. It is done through ongoing refinements in the form of small projects that are implemented through cross-functional teams by adopting a participatory approach for satisfying internal and external customers and suppliers.
8. TQM as a process is divided into four sequential steps (popularly termed as PDCA cycle): Plan, Do, Check and Act.
9. The three highly recognised and coveted quality awards in the world are: Deming, Prize, Malcolm Baldrige National Quality Award and the European Foundation for Quality Management (EFQM) Award.

Review/Discussion Questions

1. What is Management by Objectives (MBO)? What are the characteristics of MBO?
2. Highlight the different steps in the MBO process.
3. What are the benefits and limitations of MBO?
4. What do you understand by the different dimensions of quality?
5. Explain in detail the phenomenon of quality management?
6. How can an organisation establish a quality culture?
7. What is Total Quality Management (TQM)? What are the different advantages and disadvantages of TQM?
8. How can an organisation implement the TQM process?
9. Explain in detail the characteristics of most coveted global quality awards?

Field Exercises/Class Exercises/Group Projects

1. Students can identify some companies that have implemented MBO and try to analyse the changes in their profitability and other key performance indicators after the introduction of MBO.
2. Students can identify some companies that have implemented TQM and try to analyse the changes in their profitability and other key performance indicators after the introduction of TQM.
3. Students can analyse the degree of success attained by the implementation of concepts like MBO and TQM in the Indian context.

On the Internet

1. Visit http://sbaweb.wayne.edu/~absel/bkl/vol19/19cm.pdf to undertake simulation and experiential exercises with respect to the application of TQM.
2. Visit http://www.allbusiness.com/professional-scientific/management-consulting/514600-1.html to understand how to gain competitive advantage by integrating enterprise resource planning (ERP) with total quality management (TQM).

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Chapter 20

Managing Different Forms of Businesses

The world is getting smaller, and markets are getting bigger.

—Marks, M. and Meiland, D[1]

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand the characteristics of a global organisation
- know about different types of global managers and how to develop them
- examine the characteristics of small-scale business and the functions of small business management
- comprehend the problems faced by small-scale businesses
- examine the strategies for small businesses in the face of competition from MNCs

INTRODUCTION

Although the managerial functions and processes are the same, yet they differ significantly in the manner in which they are applied by different organisations. A global organisation with a large product portfolio and presence in a large number of countries cannot be managed the way a small start-up entrepreneurial venture needs to be managed. This chapter highlights the nuances of the application of managerial concepts and fundamentals in two distinct forms of business organisations—small and global ones.

Today, there is a clear shift in the business organisation's approach from local to global. This trend appears to be irreversible and is gaining momentum with more and more organisations deciding to go global. The turnover of some of the giant global businesses is more than the combined GDP of a large number of small countries. Therefore, to manage these huge trans-national corporations, which are playing a significant role in the global economic landscape, requires a special focus and calls for a very different mindset, approach and managerial framework.

Characteristics of a Global Organisation

To define a global organisation, one must understand when does an organisation become global? Or, what makes an organisation a truly global organisation? There are many different approaches and perspectives to define a global organisation. An organisation can be termed as 'global' due to its multiple facets, like presence in a large number of countries, cultural adaptability, multilingual executive team, etc.

Green et al.[2] (2003) have outlined the following characteristics of a global organisation.

(a) A good global company is given preference by customers all over the world. For instance, Sony, Toyota, Microsoft, GE, etc. command customer preference not only in select parts of the globe but almost in the entire world. Europe accounts for about 30-35 per cent of the revenues of Moser Baer, an Indian company that manufactures CDRs in 1998-99. The Americas contribute 25-30 per cent of Moser Baer's revenues, Asia (including India) around 25 per cent and Japan about five per cent.

(b) The technologies, factories and products of a global organisation are made for the world, not just for a single region. Although there might be some customisation or modification according to local conditions, yet there is a great degree of standardisation in the functioning of a global organisation across different geographical regions. Moser Baer, besides its world-class manufacturing in India, has set up a joint venture with the US-based Imation for R&D and purchased a Luxembourg-based company, called Capco, to have footprints across the dominant world markets.

(c) The management team of a global organisation comprises people from all parts of the globe. Many Japanese companies are headed by Americans and vice versa. A large number of global companies are now being led by Indians. For instance, McKinsey selected Rajat Gupta as the first non-American to run the firm in 1994.

How to develop a Global Organisation

It is an uphill struggle and a long journey to become a truly global company. A company can become a truly global company by developing the following capabilities.

(a) ***Drive to become a global leader:*** The companies who want to shine in the global arena have a strong determination to be a global leader. The mindset and vision to become a leading global player is the first and most important thing for a company to go global. It enables the company to pursue its goal consistently in spite of the odds and challenges. The management, intending to go global, needs to take hard decisions on its strategy so that its long-term interests are not sacrificed because of its short-term orientation. In the recent past, the drive to become global leaders has assumed prime importance for some Indian companies, like Asian Paints, Tata Motors, Moser Baer, Sundaram Fasteners, Bharat Forge, etc. For instance, Asian Paints' stated its objective is to become one of the top five decorative paint companies in the world. It started its global journey by setting up a manufacturing facility in Fiji in 1978. Then it entered Tonga in 1982, Nepal in 1983 and acquired Delmage Forsyth & Co, the second largest paint company in Sri Lanka, in 1999. The Oman and Mauritius plants were commissioned in 2000. It acquired Pacific Paints in Australia in a bid to enter the developed markets. The Bangladesh operations started with the setting up of the company's largest greenfield venture in 2002. It acquired SCIB Chemical SAE, the fifth largest cement company in Egpyt, in 2002. With the acquisition of Berger International, Singapore, in September 2002, Asian Paints' operations were spread across 24 countries and its international revenues were 20 per cent of the total earnings of the company. This share rose to more than 23 per cent in 2003-04[3].

(b) ***Competitive advantage:*** The achievement of excellence in basic business operations is a fundamental requirement to become a global company. Once it is attained, the company should focus on developing some distinctive world-class capabilities which can provide it with a sustainable competitive advantage in the global arena. This competitive advantage can be leveraged across countries with necessary customisation to meet the local market needs. For example, Asian Paints was successful in many emerging markets in the Asia Pacific by leveraging its supply chain management capabilities.

(c) ***Focus:*** A company can go global with what it is best at. If it is a highly diversified company, then it can gradually get out of some businesses that it is not best at. For instance, GE narrowed down the number of its businesses by getting out of the businesses where they were not likely to become number one or number two. Indian organisations like Tata and Hindustan Unilevel (HUL) have also got out of a number of businesses where they did not had a strong competitive advantage.

(d) ***Global organisational structure:*** Global companies do not create a major distinction between their domestic and overseas operations. Their organisation structure has to reflect their global ambitions. The global organisational structure is usually a matrix structure of businesses, geographies and functions to integrate the global operations of a company and make them efficient. It also facilitates and accelerates the transfer and sharing of knowledge across the organisation. For instance, Tata Motors intends to apply the learning of global companies like Jaguar and Land Rover to its operations in India and at the same time use its knowledge of the Indian market to compete successfully in other emerging markets.

(e) ***Focus on Customer Delight and Long-term Orientation:*** The companies that intend to go global should build the global brand equity by winning over the trust of customers and providing customer delight. For instance, once a strike on the US west coast ports halted the cargo movement. Sundaram Fasteners Ltd. (SFL), the Indian OEM supplier to General Motors (GM), was supplying radiator caps to GM through the west coast. The shipments had to reach in time so that GM's operations did not come to a halt. To maintain the trust and confidence of GM and also delight its customer, SFL decided to airlift radiator caps to GM in Detroit, spending almost double the value of the caps just on airfreight. This took away all the SFL's profits for that batch, but the effort was worth it because it established the reliability of SFL in the eyes of GM, which competing suppliers would find difficult to match in the near future.

(f) ***Global Managers:*** The companies intending to go global need to develop a talent pool of leaders who are comfortable operating across the world and can operate effectively in overseas markets. Wipro has made considerable investment in the development of global managers.

(g) ***Strong Base:*** At the initial stage, a company intending to go global should have a large enough domestic market so that it can generate adequate cash flows to support the company's expensive, long-term effort to become a global entity.

(h) ***Launching Strategy:*** Exporting is a relatively safer way to enter the global arena as it help a company understand different markets and gradually build its brand name in those markets. It might be a bit risky to straightaway start with setting up a manufacturing unit abroad if the company's brand is not recognised internationally. So, the company should take the export route to build its credibility and reputation internationally.

Initially, a company should select a market that is similar to the domestic market for its international foray. For Indian companies, the Afro-Asian markets appear to be a sensible option to go global because they would be relatively easy to target. The SAARC (South Asian Association for Regional Cooperation) and some ASEAN (Association of South East Asian Nations) countries are quite similar to India in terms of purchasing power, consumption patterns, savings habits and performance expectations.

After targeting India-like markets, the companies should consider markets that are large and have similar profiles in terms of political, social and cultural factors. These markets can be selected by taking into consideration factors, like the level of political risk, currency risk, the intensity of competition, the initial cost of entering these markets, recent experiences of the Indian companies trying to penetrate these markets, the extent of extra learning required to understand the customer needs and preferences in these markets. The organisation can rate the shortlisted countries or markets on these parameters and develop entry strategies and timelines for different countries.

Niraj Dawar and Tommy Frost[4] have suggested the following strategies that can provide useful guidance to the Indian companies intending to go global:

(a) ***Dodge:*** The companies, which face immense pressure to globalise because of the industry dynamics but actually have limited capability, to become a global company, can either become a highly focused or niche domestic players to serve a particular market segment (on the basis of some unique advantage) or form partnerships with MNCs to serve a larger market. For example, Bajaj Auto has formed an alliance with Nissan-Renault for manufacturing ultra low-cost car to establish itself in highly globalised automobile industry.

(b) ***Defend:*** The companies, which do not face very high pressure to globalise and also have limited capability to become a global company, can operate independently in the domestic market by concentrating on a focused area where MNCs are weak. For instance, Bajaj Auto decided to go alone in the manufacturing of two-wheelers as it can concentrate on low-end two-wheelers because the MNC two-wheeler companies focus on high-end powerful two-wheelers.

(c) ***Extend:*** The companies which do not face intense pressure to globalise but have some assets or competencies that are transferable to other markets can go global selectively. They can focus on overseas markets which are similar to the domestic market in many ways.

(d) ***Contend:*** The companies, which face high pressure to globalise and have transferable assets, can invest in the upgradation of their skills and resources and go ahead to expand globally at a required pace.

Advantages of Becoming a Global Company

The global companies enjoy the following advantages.

- Different countries go through peaks and troughs in demand at different times. This helps the global company to survive in the face of tough times in some countries or regions.
- The capacity utilisation is more effective for a global company as it can mitigate the risks of downturns by diverting the production from the regions that are not doing well to the regions that offer higher growth.
- A global company can lower the cost of production. For example, Tata Motors is reported to be producing trucks at the lowest cost in the world. It can deliver its trucks at prices which are at least 25 per cent less than the other global players, like Daimler Chrysler.

GLOBAL MANAGERS

A large talent pool of global executives with significant experience and competency in managing global corporations is available today thanks to the increased spread of global organisations. There is no single definition of a global manager. Bartlett and Ghoshal[5] (2003) have identified the following four groups of specialist global managers. Each type of global manager plays a very different role and thus requires very different types of skills in order to perform his/her role successfully.

- ***Business Manager:*** A business manager is the global head for a particular business or product-division of a global organisation. His/her responsibility includes enhancing the scale, efficiency and competitiveness of that particular division or business on the global level by integrating its worldwide operations.
- ***Country Manager:*** A country manager heads the national level subsidiary of an MNC in a country. He/she needs to understand and interpret the local market to meet the local customer's needs effectively and strenghten the company's position against local and external competitors in that market.
- ***Functional Manager:*** A functional manager is in charge of a particular business function (marketing, human resources, finance, etc.). The functional manager scans the specialised information about his/her function all over the world and ensures the sharing of best practices related to his/her function in different countries and continents.
- ***Corporate Manager:*** A corporate manager is the top executive at the corporate headquarters of a global organisation. The corporate manager integrates the functioning and responsibilities of other three types of global managers by balancing the negotiations among them. The corporate manager leads the entire organisation in the broadest sense by identifying and developing talented business managers, country managers and functional managers.

Developing Global Managers

To develop and manage global organisations, truly global managerial talent is required. Some specific competencies are required for an executive to be successful in managing a global organisation. These skills and competencies can either be acquired by hiring a manager with global experience or developed in-house by adopting the following practices suggested by Meiland[6].

- Providing managers opportunities to work in more than one market.
- Encouraging travel by the managerial pool that needs to be groomed as global managers because travel provides multifaceted exposure of different regions and the resultant experience broadens the mind.
- Developing cultural sensitivity of managers to enable them understand different cultures and also working upon their own biases with respect to race, region, religion, culture, etc.
- Instituting a system for analysing manager's work histories and developing career plans to make them global leaders.

SMALL BUSINESS MANAGEMENT

In a sharp contrast to resource-rich global organisations, which have the luxury of specialised managerial competencies for different managerial functions, small businesses could be even a single person or a single family organisation. The challenges faced by these small entrepreneurial setups are very distinct from those faced by the global organisations. They do not have a pool of managerial talent to address their issues and concerns— almost everything has to be done by a single individual in the face of limited resources and competencies.

In a country like India whose many problems are caused by its huge population which does not have enough job opportunities, entrepreneurship or setting up a small business occupies an important place in the country's economic development. Global Entrepreneurship Monitor (GEM), a report published in late 2002 by the London Business School, reckons that nearly 18 per cent of India's workforce is engaged in some form of entrepreneurial activity as compared to 2 per cent in Japan and 10.2 per cent in the US (the global average is 7 per cent). Only Thailand ranks higher than India[7].

Entrepreneurial aptitude and skills required to set up and manage a small business entity are entirely different from the specialised managerial skills required in a manager working in a department of a large organisation. People with entrepreneurial mindset want to do something on their own. They are not very comfortable with the idea of working as a manager in a business organisation for their entire life. On the other hand, people who want to be a manager in a good organisation are not keen on taking the risk that is associated with entrepreneurship.

If in a large organisation there are specialised departments to manage different functions and a clearly defined hierarchy of different levels of managers, then the management of a small business revolves around a single person who is taking care of the majority of managerial as well as non-managerial functions. Let us understand the unique facets of managing a small business.

Small-scale Business

The definition of small-scale business varies from one country to another and from time to time. It is usually defined on the basis of a nation's stage of economic development. Different bases that are adopted for the classification of small business are discussed below.

1. ***Scale/Size of Business:*** For defining small business on the basis of the size of a business organisation, the following parameters are adopted.
   (a) Amount of investment made in assets (plant and machinery).
   (b) Number of employees working in an organisation.
   (c) Production volume/output produced by an organisation.
   (d) Annual sales (turnover) of an organisation.
2. ***Qualitative Aspects:*** There are some non-quantitative aspects that are also used to define small business. Some of these are described below.
   (a) The ownership is usually in the hands of a single individual or at the most a small number of partners.
   (b) The management and control are in the hands of the owners.
   (c) The small business management usually involves labour-intensive techniques of production or rendering of service.
   (d) Small businesses are managed in a limited area of operation.

Evolution of Definitions of Small Business in India

The definition of small scale business in the Indian context has been revised several times. Consequently, the scope of businesses that are treated as small business has been undergoing changes. According to the Small-scale Industries Board (1955), small-scale business referred to a unit employing less than 50 persons if using power, and less than 100 persons without the use of power, and with a capital investment not exceeding Rs. 5 lakhs.

In 1997, the definition of small-scale business was revised as an undertaking having an investment in plant and machinery of not more than Rs. 3 crores. In the year 2000, the investment limit for plant and machinery in small-scale business was again reduced to Rs. 1 crore.

In accordance with the provisions of MSME Act 2008, small business in India in the manufacturing sector refers to a business wherein the capital invested in plant and machinery, excluding land building, is more than Rs. 25 lakh but less than Rs. 5 crore. For a service sector enterprise, the current limit of investment in plant and machinery, excluding land building, is more than Rs. 10 lakh but less than Rs. 2.5 crore.

Characteristics of Small Business Management

The small business management is a customised application of management or managerial functions, which is significantly different from the management of medium- and large-scale businesses. The essence of the small business management is reflected in its following characteristics.

1. ***Persistence:*** Because of limited resources and the cyclical nature of business, the entrepreneur who is managing a small business has to face tough times on some occasions. There is need for lot of persistence to carry on and not to give up. This spirit of persistence distinguishes a successful entrepreneur from the one who quits when the going gets tough. Therefore, the small business management requires a constant drive to accomplish a given task with vigour and a sense of responsibility.

Medium- and large-scale organisations have lots of resources and are provided the security and support of a large system. Therefore, the requirement for persistence in a large organisation is very different from that for a small business.

2. ***Initiative:*** The ability to start, to take the first step, whether launching the business or proposing any improvement, is the key to the success of small business. In 1981, six individuals put Rs. 10,000 together, mostly borrowed from their generous wives, and started business in a small 770 sq. ft apartment. Today that company has emerged as one of the leading and highly respected IT organisations of India, Infosys[8].
3. ***Creativity or Ingenuity:*** Developing solutions that are both novel and useful to fulfil the needs of customers or to solve the business problems in a timely manner is the key competitive advantage of small businesses. Due to this advantage, they are able to compete with medium- and large-scale organisations which are relatively slow in decision-making and implementation because of a various reasons.
4. ***Moderate Risk Taking:*** Small business managers usually take calculated realistic risks in order to be successful. They get great satisfaction in completing tasks by applying their ingenuity. On the other hand, a manager in a large organisation usually tends to avoid taking the necessary risk, because of fear of losing his/her job or promotional opportunity if things turn the other way round.

Functions of Small Business Manager

A small business manager, usually as the owner of business, performs the majority of the following managerial functions himself or herself.

1. ***Product Management:*** The manager/owner of every small business is concerned with the following components of the product management.
   - Evaluating the performance of current products.
   - Planning and development of products to be launched in the future.
   - Introducing new products by taking into consideration the market demand.

   In the product management, usually necessary changes/improvements are made in the existing products to suit the changing tastes and preferences of customers. Decisions are also made for stopping the production of those products which are no longer in demand or which are not proving to be profitable.
2. ***Marketing Management:*** The small business manager performs the following activities with respect to the marketing function of his/her organisation.
   - Identifying the needs of consumers, usually in an informal manner.
   - Developing the marketing-mix (decisions on product, price, place, promotion, etc.) for the product or service offered by the small business organisation.
   - Satisfying the needs of the present and potential customers.
   - Making available the right product at the right place at the right time and in the right manner.

   The marketing management of a small business consists of the following main functions.

   (a) **Buying**: It relates to exploring the sources of supply as per the production requirements and accordingly placing orders, receiving these orders and making payments.

(b) **Selling**: It involves selling products or services by attracting prospective buyers through advertisements and other promotional techniques.

(c) **Transportation**: The transportation function ensures the movement of products from the factory or warehouse to the market from where they are likely to be purchased for final consumption.

(d) **Warehousing:** It involves provision of proper storage facilitates for the products manufactured by the business and making them available to consumers as and when required. Warehousing is needed because usually there is a time gap between the production of goods and their sale.

3. ***Financial Management:*** Small business managers have also to take decisions with respect to financial requirements and capital utilisation. It may relate to managing both long-term and short-term finance.

   The first major financial decision that a small business manager has to take is about the source of finance for startup capital. It could be self financing by the owner through cash, equity loan on his or her home or any other assets, loans from friends or relatives, private stock issue, SME finance including collateral based lending and venture capital.

   Since small business firms have limited access to and support from financial institutions, proper management of the available finances is an important task of the small business management. It has to establish an adequate balance between the capital investment and working capital requirements.

   The availability of cash for meeting the day-to-day requirements is very critical for the survival of small business, because it has invested most of its financial resources in setting up the business. Besides a good amount of their goods is sold at credit for longer durations as their brands are not popular enough to be sold for cash payment. Therefore, a small business must undertake an efficient and effective planning of its cash flow and working capital to avoid any resource crunch.

4. ***Profit Management:*** The prime aim of any business organisation is profit. The manager of a small business entity should be able to develop projections for its future profitability that with very little assistance from the finance professionals in the organisation. The profit management enables an entrepreneur to understand:

   (i) the relationship between cost, volume and profit to determine costs and profits at various levels of turnover.

   (ii) the formulation of the pricing policy by taking into consideration different price structures.

   (iii) the level of the plant's operational efficiency.

Problems Faced by Small-scale Business

Given below are select problems faced by the small-scale business entities, in managing their operations. These problems may not be faced by large or global companies.

1. ***Financing:*** Owing to their lower creditworthiness, small businesses find it difficult to fulfil the lending provisions of banks and financial institutions and they have to bear a high cost of funds. A good number of small businesses also lack a proper planning for finance allocation.

2. ***Marketing:*** The small business managers have to cope with the marketing problems because they can't afford to spend huge resources on research, promotional tools and brand building. Usually, they sell me-too type of brands at a lower margin for a longer credit period.
3. ***Infrastructure:*** Another problem facing small businesses is the lack of basic infrastructure, like communication, power, etc. Small businesses, set up in backward or less developed areas, suffer greatly due to long power cuts.
4. ***Technology:*** Since small businesses lack requisite funds to modernise their plant and machinery, they are forced to use crude or obsolete methods of production which result in such products that are not of a very high quality as compared to the products of large organisations.
5. ***Project Planning:*** The small business managers are not that adept in project planning. They do not pay much attention to viability, technical, economical and other studies. Sometimes demand trends, marketing problems, sources of raw material supplies, etc. are not given due weightage before commencing a business or a project.

STRATEGIES FOR SMALL BUSINESSES TO FACE COMPETITION FROM MNCS

Small firms have to face tremendous competitive pressure from large organised players, cheap imports, substitutes and other small business organisations. In 1990, there were 60 countries in the world that had Gross National Product (GNP) of less than US$10 billion, while there were more than 135 Trans-National Corporations with revenues in excess of that amount[9]. The firms based in affluent core countries, especially the European, American and Japanese TNCs, have the greatest influence in determining what is produced and consumed[10].

Small Companies find it extremely difficult to survive in the face of tough competition from TNCs who are far ahead of them in most facets of business. However, small businesses can adopt a different approach or strategy to survive and grow in spite of the existence of large organisations. Ger[11] (1999) has identified the following strategies that can help small businesses to have a profitable existence by taking advantage of their potential.

(a) ***Unique perceived value:*** Rather than operating in the highly competitive markets that are already shared and dominated by the MNCs, small firms can operate in alternative domains (where MNCs do not have a strong presence) and 'out-localise' the MNCs, in both global and local markets. For instance, Dabur has been able to build a strong FMCG brand in a market that is dominated by MNCs like Unilever, P&G, Reckitt Benkiser, etc. by using the knowledge of ayurveda.

(b) ***Cultural capital:*** The inherent advantage of small companies is their 'local' identity and culture. This advantage can be further consolidated for competing with the MNCs by defining themselves as 'authentic' in select non-standard domains, such as in cultural goods and products for local conditions. Companies can develop an alternative targeting and positioning based on the precept of localness. For example, 'Bagh Bakri Chai', a tea brand of an Indian company, is a clear market leader in some states, like Gujarat and Maharashtra, despite the presence of giants like Hindustan Unilever, Tata Tea, etc.

CONCLUSION

Small businesses are entirely different from large businesses and have to encounter numerous problems relating to finance, marketing, infrastructural facilities and modern technology. Therefore, proper planning must be done by the manager of a small business before commencing any small-scale project.

Points to Remember

1. Green et al. (2003) have outlined the following characteristics of a global organisation: a good global company is given preference by customers all over the world; its technologies, factories and products are made for the world, not just for a single region; and its management team has people from all parts of the globe.
2. Bartlett and Ghoshal have identified the following four groups of specialist global managers: Business Manager, Country Manager, Functional Manager and Corporate Manager.
3. Meiland suggested the following practices for developing global managers: providing opportunities to work in more than one market, encouraging travel by the managerial pool, developing cultural sensitivity, instituting a system for analysing managers' work histories and developing career plans to make them global leaders.
4. As per MSME Act 2008, small business in India in the manufacturing sector refers to a business wherein the capital invested in plant and machinery, excluding land building, is more than Rs. 25 lakh but less than Rs. 5 crore. For a service sector enterprise, the current limit of investment in plant and machinery, excluding land building, is more than Rs. 10 lakh but less than Rs. 2.5 crore.
5. The essence of the small business management is reflected in its following characteristics: persistence, initiative, creativity or ingenuity, and moderate risk taking.
6. A small business manager, usually as the owner of business, performs majority of the following managerial functions himself or herself: product management, marketing management, financial management and profit management.
7. The problems faced by small-scale business relate to: financing marketing, infrastructure, modern technology and project planning.
8. Ger (1999) identified the unique perceived value and the cultural capital as the strategies that can help small businesses to have a profitable existence by taking advantage of their potential.

Review/Discussion Questions

1. How does managing a global organisation different from managing small, regional or national-level organisations?
2. What are the characteristics of a global organisation?
3. What strategies do you recommend to make an organisation global?
4. What are the different types of global managers?
5. What strategies and practices can be employed to develop global managers?
6. Define small-scale business. What are the characteristics of a small-scale business?
7. What are the characteristics and functions of the small business management?

8. What problems are faced by small-scale businesses?
9. Which strategies do you recommend for small businesses to follow in the face of tough competition from MNCs?

Field Exercises/Class Exercises/Group Projects

1. Students can compare and contrast the priorities, HR and marketing practices, issues and challenges of global and local companies in the same industry.
2. Students can identify some successful local companies that have been able to survive and grow in spite of the competition from large multinationals and discuss their innovative strategies in the classroom session.

On the Internet

1. Log on to http://www.rediff.com/money/2005/apr/28spec.htm to know how to be a world-class CEO.

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Case Study

Tata Motors After Acquisition of JLR: A Different Ballgame Altogether

First it was the association with Mercedes in India, then the acquisition of Daewoo's commercial vehicle division in South Korea, and finally came the biggest of all, the acquisition of Jaguar and Land Rover (JLR). Ratan Tata, Chairman of the Tata group maintained that the technologies of JLR would be a key driver for the success of Tata Motors Limited (TML). TML was growing step by step. No company in the world is present across such a wide portfolio starting from the Rupees one lakh small car to premium cars worth crores of Rupees.

When Tata Motors' \$2.3 billion deal to buy JLR was completed in June 2008, it was hailed as a courageous decision by an Indian corporate. It signalled the emergence of Indian corporate sector on the global stage. But, soon the deal run into trouble. TML desperately needed \$1 billion to repay part of the bridge loan it had taken to buy JLR. The banks didn't want to lend because they feared JLR will go bankrupt. It made a plea to the government to come to its rescue, but why should the British government lend the British taxpayer's money to protect a company that is owned by a company from some other country?' Analysts are raising concerns about Tata Motors' ability to refinance the \$3 billion bridge loan it drew to finance the JLR deal with Ford.

TML rejected media reports of the poor financial health of JLR during January-June 2008 by stating that the \$244 million loss in that period happened due to a Ford-related \$912 million tax provision against the revenues of \$668 million. Although TML's official statement was that this loss was 'not reflective of JLR's business performance', yet its stock has performed worse than its peers since January 2009 and equity analysts in most brokerage firms gave the thumbs down to the company stock. India Infoline's research division, IIFL, maintained a 'reduce' recommendation to its clients holding Tata Motors shares in their portfolios.

The pension liabilities of JLR are as high as Rs. 1,457 crore. They have brought down TML's consolidated net worth by 36 per cent, compared to 2007-08 figures. As of 31 March 2009, JLR's pension schemes have a projected benefit obligation of about Rs. 23,700 crore and assets of around Rs. 24,490 crore.

The JLR troubles are likely to impact Tata Motors' fortunes as JLR contributes as much as 20 per cent to its overall stock price. After buying JLR, TML's interest and employee costs have each shot up 2.5 times. For the first time in seven years, its net profit of Rs 2,167.70 crore in 2007-08 has turned into a net loss Rs 2,505.25 crore (a reversal of nearly \$1 billion) since the JLR acquisition. The negative returns from JLR are likely to be a key drag on Tata Motors' profit. TML's market capitalisation on the BSE has come down to Rs. 13,830 crore from Rs. 27,620 last year.

The task of reviving the fortunes of JLR rests with rolling out of new products at the earliest. Jaguar has been able to protect its unit volumes due to the newly launched XF sedan, but the Land Rover sales have fallen drastically. There is a plan to invest Rs. 6,320 crore in new technologies, but the question is from where this money is likely to come from. TML is in discussions for a realistic deal with the UK government because sustaining the operations during the downturn is a priority. The loan from the UK government is crucial for the much-needed working capital and for helping TML negotiate settlement packages with JLR unions.

According to Angle Research, in the period November 2008 to March 2009, cash flow for JLR from financing activities was Rs. 6,485 crore, which comprised Rs. 5,419 crore of financing provided to JLR by the parent company. Additional borrowings of Rs. 1,066 crore were also taken from other sources. Since March 2009, JLR has secured or has credit approvals for further financing facilities which, together with those already in place, are sufficient to meet the present requirements. The European Investment Bank has also approved Rs. 2,686 crore in funds.

In fact, JLR has not fared all that badly in markets where there are new billionaires. China and Russia are important markets for JLR. Its sales grew by 13 per cent in Russia, but globally the sales were down by 30 per cent. JLR was launched in Mumbai in 2009. However, the combined sales of JLR from June 2008 to March 2009 fell 32 per cent to 167,300 units. Volumes for April and May 2009 continued to show about 40 per cent year-on-year decline in the US and Europe. JLR recorded a top-line of around Rs 39,097 crore and an operating loss of around 115 pounds million pounds. Therefore, the recovery of JLR is imperative for TML's future.

Analysts say that TML's total debt is Rs 31,000 crore, and of this, the aggregate long-term debt was around Rs 16,302 crore, 50 per cent of which has to be repaid over 2010-11. TML's consolidated net worth as on 31 March 2009 was valued at about Rs 5,316 crore. Its consolidated debt-equity ratio is around 5.8 times, and analysts say that all this would keep its cash-flow under pressure. TML requires as much restoration as JLR.

The period from 2007 to 2009 has been a whirlwind of sorts for TML, as the group had to raise large sums of money. The company has announced 11 projects, totalling Rs. 10,500 crore. The company has hinted about plans to raise capital through equity or dilution of stakes in its subsidiaries, but this can further put pressure on the earning per share and return ratios.

Questions for Discussion and Analysis

1. Was it a wise move on the part of Tata Motors to acquire JLR?
2. Is the acquisition of Jaguar Land Rover (JLR) becoming an albatross around the neck of Tata Motors?
3. What future do you foresee for JLR?

Chapter 21

Creativity and Innovation in Management

Anyone can look for fashion in a boutique or history in a museum. The creative explorer looks for history in a hardware store and fashion in an airport.

—Robert Wielder[1]

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand creativity and innovation and their different forms
- appraise the principles of creativity and sources for creative ideas and innovation
- comprehend the myths about innovation and know the principles that determine the effectiveness of the innovation process
- understand the challenges of creativity in the corporate sector and how to facilitate creativity and innovation
- comprehend the stages of the innovation process and guidelines for the effective implementation of innovation
- critically analyse innovation and issues related to innovation in the Indian context

INTRODUCTION

As per a 1999 study, published in *The Economist*, nearly 50% of the US economic growth at the end of the 1990s came from business lines that didn't exist a decade before. America Online didn't exist before 1983 and in 2000 it had a market capitalisation greater than Ford Motor Company and General Motors combined[2]. America Online, a global Internet service provider, emerged from the innovative idea of capitalising on the huge business opportunity offered by the then nascent Internet. Every business organisation needs to be innovative to remain competitive. And, today managements are giving due importance to creativity and innovation in their scheme of things. Cross-functional teams and task forces are being increasingly employed in organisations to encourage the employees to find creative solutions for the recurring problems.

Dr. Michael Raynor[3], Deloitte Research Director, *The Innovator's Solution,* rightly said the companies that do not innovate are 'doomed to fail'. Thus, being creative and innovative is a must for the present-day manager if he/she wants to keep climbing in the managerial hierarchy.

CREATIVITY

Creativity is not some magical or mystical concept bestowed only on a few fortunate individuals, like artists or geniuses, as it is normally perceived to be. It is also not something that 'either you have it or you don't'. Creativity is something that all individuals possess to one degree or another.

According to Robert E. Franken[4], creativity is defined as the tendency to generate or recognise ideas, alternatives or possibilities that may be useful in solving problems, communicating with others and entertaining ourselves and others. According to Webster's Dictionary, creativity is the ability or power to create, to bring into existence, to invest with a new form, to produce through imaginative skill, to make or bring into existence something new.

In another way, creativity may be defined as the ability to test existing assumptions, to see things from different perspectives, and to generate novel and useful ideas. If someone can do these things, even moderately well, then that person has creativity.

Different Forms of Creativity

There are different forms of creativity: artistic creativity, communication creativity, profession-related creativity, etc. Varied forms of creativity are employed by organisations in different types of situations. For instance, in a marketing situation, an organisation can display its creativity in the following marketing strategies.

1. ***Promoting of New Uses of the Existing Products in the Existing Markets:*** Organisations use creativity to find out some new uses of their existing products to enhance sales in the existing markets.
2. ***Introducing Existing Products in New Markets:*** This form of creativity aims at finding out new market segments and distribution channels for the existing products.
3. ***Designing New Products for the Existing Markets:*** This form of creativity aims at designing a new product by an organisation its existing market. The organisation can leverage its brand loyalty or distribution channel to establish the new product in the existing market.

4. ***Introducing New Products to New Markets:*** This approach towards creativity involves launching new products in new markets. The objective of this approach is to offset the risks associated with the organisation's dependence on its existing products and markets for growth.

Creativity Principles to Generate Creative Ideas

Van Gundy[5] identified the following creativity principles which can help an individual to realise his/her creative potential:

1. ***Test All Assumptions:*** The conditioned thinking creates a hindrance to examine all possible assumptions. Managers due to their conditioning, caused by years of experience and working under time pressures, usually approach or respond to an issue in a conventional and time-tested manner without exploring all possible options. Creative solutions can only be achieved by testing all assumptions.
2. ***Separate Idea Generation from Idea Evaluation:*** As proven by Alex Osborn's brainstorming technique, one can get more ideas by separating idea generation and evaluation. Simultaneous generation and evaluation of ideas discourages most people from putting forward radical, novel and really creative ideas. In many cases, even the ideas, which apparently cannot be used as a solution, might stimulate someone else to think of a more creative and useful idea. So it's better to use ideas to generate more ideas without evaluating them.
3. ***Defer Judgement on Ideas:*** Defer judgement on an idea when it is proposed for the first time because at the initial stage the idea is raw and fragile and must be nourished and developed to pass a judgement on its applicability. Generally, the initial response to a really creative idea is based on the conditioned thinking, which can discourage creative thinking. By deferring the judgement one can start perceiving values in those ideas that were initially perceived to be silly. One needs to give a chance to new ideas to become great ideas.
4. ***Encourage Positive Thinking:*** An atmosphere of negative thinking that is created by the thinking based on constraints can repress creative thoughts. On the contrary, positive thinking encourages people to be open minded to express and consider creative ideas for more in-depth analysis.
5. ***Top Management Support:*** Creativity finds it difficult to flourish beyond a level if the work environment is not supportive. There must be support from the top management for new ways of doing things. The top management must provide the required resources as well as inspirational and psychological support.
6. ***Giving Examples:*** The manager can enhance the creative thinking of his/her subordinates by providing them with some examples the ideas or solutions that are expected from them.
7. ***Elimination of Non-practical Solutions:*** By explaining what is not required as it is less likely to work, the manager can channelise the thinking of his/her team members towards creating solutions that are likely to work.
8. ***Working with High Performers:*** The manager needs to interact or work with high performers in his/her field to identify and adopt their relevant methods, tools and 'tricks of the trade'.
9. ***Challenging Goals and Deadlines:*** The realistic or slightly challenging or stretching goals, deadlines and timelines can also spur people to come out with more and better ideas.

Idea Generation Techniques

Select techniques for generating creative ideas have already been discussed in detail in Chapter 8 on Planning.

Sources of Creative Ideas

The manager should make an attempt for getting good ideas from everyone and everywhere. He/she needs to look at all possible sources to get ideas to improve the organisational performance. Some sources of creative ideas are listed below.

- ***Customers:*** As users, the customers have a firsthand experience of the products.
- ***Competitors:*** The features of the competitors' products and practices adopted by them can be a source of ideas for improvement.
- ***Peers:*** The practices adopted by fellow practitioners can inspire creativity in an individual.
- ***Published literature:*** The published literature in journals, magazines, industry newsletters and newspapers can be a good source for creative ideas to be implemented in the organisation.
- ***Patents:*** The patents that are filed and awarded can provide an inspiration as well as direction for future research.
- ***Subconscious mind:*** The human mind has tremendous potential and has lots of useful information stored in its subconscious part that can be accessed to generate creative ideas.

It is imperative to understand that having a creative idea is just the beginning. Ideas do not get implemented themselves. To create something real from an idea one needs to take initiative, act, manage, handle the associated risk and, above all, work hard.

INNOVATION

The term innovation means a new way of doing something. It may refer to incremental, radical and/or revolutionary changes in thinking, products, processes or organisations.

According to Michael Porter[6] (2000), innovation doesn't mean small, incremental improvements; it means offering things in different ways, or finding new ways of combining things. According to Schumpeter[7], innovation involves the introduction of a new product or service in the market, which clients are not still familiarised with. In simple words, innovation involves putting a creative idea into a use to add value in terms of productivity.

Innovation = Idea + Action + Add Value (Productivity)

Organisations need to adopt innovation and must have something distinctive in alignment with their strategic direction in order to have an advantage in the present context[8].

Principles of Innovation

Drucker[9] (1985) gave the following principles that determine the effectiveness of the creativity and innovation process.

- Innovation has to be simple, focused and directed towards a specific application. It should do only one thing; otherwise it can confuse people. It should be so simple that it encourages people to say, 'This is obvious! Why didn't I think of it? It's so simple!'

- Effective innovations start small. They are not grandiose.
- Innovation requires knowledge, ingenuity and focus. Innovators rarely work in more than one area as their talents lie in well-defined areas.
- Innovation is hard, focused and purposeful work rather than plain genius. If diligence, persistence and commitment are lacking, then talent, ingenuity and knowledge are of little use.
- Innovation, like other business functions, is a management process and requires specific tools, rules and discipline, not just creativity, novel thinking and ideas.

Classification of Innovation

Innovations are of different types. Broadly, these are classified on the basis of their application and originality as described below.

- ***According to the Application of Innovation:*** On the basis of application, innovations can be classified into the following two groups.
- ***Product Innovation:*** It involves planning, launching and commercialising a product which is technically different from an existing one. It might involve modification in the characteristics of an existing product or creating an altogether new product or service.
- ***Process Innovation:*** It occurs when there is a meaningful change in the methods or technology employed by an organisation to perform different operations.
- ***According to the Extent of Originality of Innovation:*** On the basis of the extent of originality, innovations can be classified into the following two groups.
- ***Incremental Innovation:*** This form of innovation leads to small incremental improvements in an existing product, service or method. Organisations tend to make incremental product improvements over a period of time, but eventually they reach a point where the product performance exceeds customers' demand. At this stage, due to incremental improvements the product has become more expensive than the customers are willing to pay because they perceive a modest gain from the improved product for which they are not willing to pay a higher price.
- ***Radical Innovation:*** It involves totally new applications of a technology or a unique combination of the original ones to produce something that is significantly new and novel. Disruptive innovators strive to serve those customers that are underserved or unserved by the other products and organisations. They either create a new market or change the existing competitive landscape. Because of slowing markets, increasing competition and changing customer needs, companies are being forced to pursue 'disruptive' strategies to maintain long-term growth by meeting the needs of unserved or underserved markets[10].

Innovation and Creativity

Innovation usually involves creativity, but is not equivalent to it. Innovation involves implementing creative ideas to make some tangible difference. Amabile et al.[11] (1996) propose: 'All innovation begins with creative ideas… Innovation can be defined as the successful implementation of creative ideas. In this view, creativity is a starting point for innovation; the first is necessary but not sufficient condition for the second.'

For innovation to happen, creative insights must be put into action in a manner that makes a genuine difference to the existing business processes or the products and services provided by an organisation. Thus, if creativity involves thinking new things, then innovation is doing new things.

Sources of Innovation

According to Drucker[12] (1985), innovation can originate from a variety of sources discussed below.

(a) Innovations can spring from a flash of genius.
(b) Most innovations result from a conscious, purposeful search for innovation opportunities.
(c) Managers can look for innovative ideas within a company or industry in the form of unexpected occurrences, incongruities, process needs and industry and market changes.
(d) The sources of innovation opportunity outside a company in its social and intellectual environment are: demographic changes, changes in perception and creation of new knowledge.
(e) Innovation opportunities may arise from incongruity within the logic or rhythm of a process.
(f) An incongruity between expectations and results can also open up possibilities for innovation.
(g) Creativity and innovation in the organisation are nurtured, developed and implemented in a team setting. Therefore, teams need to be conditioned for creative thinking so that they can emerge as fertile sources of managed and organised creativity.

Myths about Innovation

Innovation is one of the least understood business processes. A large number of myths and wrong perceptions are associated with the domain of innovation. Empirical research has challenged many of these notions or myths in the last decade. Some innovation myths and related facts are discussed below[13].

- *Myth 1:* The creative process belongs to the realm of some inspired genius, and innovation is created by a brilliant scientist, designer or entrepreneur.

  Reality: In the present-day organisational setting, innovation is created through networks of functional groups, task forces or project teams that collaborate with each other at numerous steps—from brainstorming sessions to the creation of a finished product.

  The innovation process can also be a well-managed diligence of ordinary people. Innovation needs to be approached not as a mysterious gift of the talented few but as the process of making seemingly impossible connections that bring together the things that normally don't come together. Gallagher, George and Kadakia[14] found that innovation does not necessarily require creative geniuses. Rather, companies just need leadership and discipline along with people who have intellectual curiosity and are motivated to develop new products by opportunities for professional advancement.

- *Myth 2:* It is believed that people with a strong social network, having shared norms, trust and reciprocity, are far more willing to work together and take chances on risky ideas, which can fuel innovation.

  Reality: Empirical studies have demonstrated that when relationships get strong, people become complacent and insulated from outside information and challenges. Strong ties can also promote conformity that undermines innovation. On the other hand, weak ties allow a basic level of information sharing and collaboration, and permit the inclusion of different ideas from those who are newcomers into a social network.

- *Myth 3:* Innovation is a highly creative activity that can be performed by highly creative people who are relatively less disciplined and less organised.

  Reality: The innovation process can be made more effective by adopting the practices and strategies that can bring discipline to this domain. Innovation is real work, and it can and should be managed like any other corporate function. But that doesn't mean it's the same as other business activities. Indeed, innovation is the work of 'knowing' rather than 'doing'[15]. A strong commitment to the systematic practice of innovation is common to majority of successful innovators.

- *Myth 4:* The goal of innovation is to create the next hot product.

  Reality: Creating a new product is just one type of innovation. There are actually numerous types of innovations other than the product innovation. These relate to customer service, business models, networking, channel management, promotion, etc[16].

- *Myth 5:* Creativity and innovation require freedom with respect to time and resources.

  Reality: It has been observed that if people are given too much or unlimited time for innovation, a project can become a breeding ground for internal politics. Individuals with complete freedom seldom get on track. On the other hand, realistic but firm deadlines and tight budgets keep people focused on creating viable products and getting them to market as soon as possible. Adequately set goals with clear guidelines generally facilitate rather than hinder the creative process.

- *Myth 6:* Innovation requires a lot of money.

  Reality: Financial resources are definitely required for projects with respect to innovation. Groupe Michelin spends around Rs. 6,000 crore on R&D every year. That's about equal to the total post-tax turnover of the Indian tyre industry. But, that does not mean that no innovation is possible without spending too much money. One report analysed 567 technical innovations in products or processes that occurred in 121 companies in five manufacturing industries. Over two-thirds of these innovations cost less than $100,000, only 2 per cent cost over $1 million.

- *Myth 7:* Innovation is about bringing technical invention to the market, pursuing radical new business opportunities, exploiting potentially disruptive technologies and introducing changes into the core concept of business.

  Reality: Besides the above stated goals of innovation, it also aims at making improvement to the existing products and services, and the processes and practices that are adopted to produce them on a regular basis.

Stages of Innovation Process

In pursuit of innovation, individuals and teams go through the following three stages[17].

- *Reconnaissance:* It refers to the process of scouting for new ideas and technological possibilities. It requires an inherent feel for the work and lots of practice. Different techniques to generate new ideas, which are a key part of this stage, have been discussed in detail in the Idea Generation section of Chapter on Planning.

This stage lays the foundation of the innovation process, hence it is the most valuable stage. But it is also the least understood by managers because it lacks a method. This stage poses a great challenge because individuals involved in innovation don't have known targets and sometimes have little idea of what they are seeking or what they are going to get at the end. People may uncover many opportunities that they were not even looking for but may actually fail to attain their original target.

- ***Evaluation:*** It is a stage at which different ideas or options that were generated at the reconnaissance stage, are analysed, compared with one another and evaluated to select the idea that seems to be the most appropriate in terms of adding value to the organisational efforts. SWOT analysis might be conducted at this stage and different techniques of decision-making might also be applied to select a particular option.
- ***Investment or Implementation:*** At this stage, a decision about making a commitment of some resources to transform the selected idea into a prototype or a product is made.

Guidelines for Effective Implementation of Innovation

Most organisations encourage innovative behaviour but very few are able to actually realise the fruits of innovation. The successful execution of the process of innovation involves implementing the following guidelines.

1. ***Developing a Strategic Framework:*** The strategic framework can align the creativity and innovation endeavours with the corporate objectives to add value to the organisational vision, mission and goals. In the 1980s, Ranganathan, CEO, CavinKare, launched an innovative marketing effort for the promotion of his Chik shampoo sachet, to compete with large organisations like HLL and about 200 small shampoo manufacturers. 'Return five empty shampoo sachets and get one Chik free.' It might not a good bargain, but in frugal rural households the campaign, which ran for one year, was a hit. Volumes tripled and the brand name stuck[18].
2. ***Adequate Time for Search of Solutions:*** If the management wants that its employees display an innovative behaviour while performing an activity, they should be provided adequate time to do that. It has been observed that a conscious effort to avoid the immediate acceptance of the 'first' solution and to derive a second one can enhance the creative effort. The second solutions have been observed to be superior to the first ones which are more like conventional ones.
3. ***Transforming Problems into Opportunities:*** Innovation is a process to transform problems into opportunities. According to C.K. Prahlad[19] (2002), the poor population of India may not be only a burden, but may be the key to rapid economic growth. Over four billion people around the world live in similar circumstances. India can become the test bed of innovative business models, products and services in sanitation, health, housing, education and food industry.

   Innovative opportunities can be recognised by transforming problems into potential business opportunities. Spinz Dab, a perfume, is based on the insight that not everyone can buy expensive perfumes, but everybody would like to smell nice when there is a family function. A single-use dab-on perfume costing Rs. 5-10 is something that can have a good market in a cost-conscious country like India[20].

   Looking at contradictions and mutually exclusive functions and trying to bring them together to solve a problem can also lead to a profitable business innovation. One way to do that is to look at contradictions in the marketplace. In the telecommunication business, before the call waiting innovation was introduced, one could either talk on the phone or receive phone calls, but not both.

4. ***Encouraging Risk Taking and Removing the Fear of Failure:*** Innovation is about taking risks and learning from failure. Failure is a prerequisite of invention. A business can't develop a breakthrough product or process if it's not willing to encourage risk taking and learn from subsequent mistakes. If the employees are not afraid of the possibility of failure, they would be more likely to display innovative behaviour as they would be confident that the management would not develop a negative image of theirs on the basis of their failures. Thomas Edison the great inventor highlighted this thinking in a very appropriate manner: *'I failed my way to success.'*

   There is need to encourage employees to come forward with innovative ideas by not penalising the people who fail after making a sincere effort while pursuing an innovative idea. Organisations need to create a strong case for the display of innovative behaviour by their employees by supporting them when they took the necessary risk for being innovative but actually failing in their endeavour in spite of best of their attempt. For instance, one plant manager at Nucor Corp USA, utilising his authority, chose an induction furnace to replace the existing electric arc furnace at a cost of $10 million. The new induction furnace failed to perform as per expectations and the manager decided to remove the induction furnace and go back to the electric arc furnace. The top management did not punish the manager for the wastage of $10 million, but supported him in his decision to remove the induction furnace. Had the manager been punished, it would have sent a signal to one and all in the organisation to play safe and not try anything new[21].

   Padam Shri Ashok Jhunjhunwala, who is a Professor of Electrical Engineering at IIT Madras and heads TeNeT, a telecommunication and computer network group, has incubated 78 firms and has not taken equity in any one of them[22].

   In his first attempt of industrial consultancy way back in 1984, Professor Jhunjhunwala went to a Chennai-based company, WS Industries, requesting a sum of Rs.1 lakh to develop a multiplexer that they were importing. The cost of importing one unit of the multiplexer was more than Rs.1 lakh. On account of the Professor's confidence to develop the technology at such a low price, they agreed to fund the project. He designed the multiplexer. It worked, but it was not ready from the manufacturing point of view as it did not meet a number of minor specifications. But, in the process, the students, Professor Jhunjhunwala and the company also learnt a lot. The company did not complain about the non-delivery on what was promised. It created tremendous learning for the Professor and the company about how to build products. In spite of the failure, WS Industries conducted many other projects with Professor Jhunjhunwala in the future, which he actually delivered.

   Encouraging risk taking and failure doesn't mean abandoning supervision, quality control or respect for sound practices. Just the opposite, it requires executives to be more engaged not less. The management needs to assess the nature of the failures. Some are excusable errors, others are simply the result of sloppiness[23].

   A mechanism can also be developed to minimise the risk that is associated with creativity and innovation by dividing the whole project into specific stages so that the cost for the whole project can be managed in an optimum manner.

5. ***Provision of Training:*** Relevant training must be imparted to the employees to develop their competency in creative thinking. They should be taught about the methods to generate new ideas and creative solutions to the problems existing in the market as well as within the organisation.

6. ***Setting Challenging Goals that are Appealing:*** The employees are more likely to display an innovative behaviour if the manager can get them to focus not on the inconveniences of restructuring but on the satisfaction of setting high goals and then knocking down the barriers to achieve them.
7. ***Establishing a Culture of Creativity:*** An organisation culture that promotes innovation can lead to good teamwork, morale building, better group performance and collaboration across functional areas. Organisations need to create platforms and networks of business executives for cross-pollination of ideas across different departments, divisions, and units.

   The innovation-friendly culture can be developed by increasing recognition of the people who come forward with innovative ideas. Like any desired behaviour, creativity must be identified, actively encouraged, recognised, rewarded, and used. For instance, in organisations like Texas Instruments and ST Microelectronics, employees take great pride in the work they do and measure their contribution in terms of patents filed. At Eli Lilly, employees do not wait for big achievement to celebrate. Any small reason to celebrate will result in a high tea and snacks and a small gathering of the employees.
8. ***Top Management Support:*** To encourage creativity among employees, the commitment and support of the top management is essential for creative ideas that are to be evaluated and implemented by the organisation. An initiative needs to be taken to build an agreement among different sections of employees who would be involved in the successful execution of an innovative idea[24]. As part of its value system, TCS has instituted a mentoring system called 'Propel' wherein forums have been created for the employees to think about improvements at the workplace and to think about innovations in the business units. Many organisations are pushing the decision-making to the lower levels of management as they are growing bigger in size. For example, ST Microelectronics has a process of patent mentoring to encourage employees to produce and register unique ideas for patents.
9. ***Giving Brief Staff Function Roles to Line Managers:*** To encourage innovation in the plans of line managers, they can be withdrawn from the line organisation for a while and made to serve in the staff function of the organisation. In staff positions, they have an opportunity to enhance their ability to manage creatively, which is often missing while performing the line role because of time pressures and target orientation.

CHALLENGES FOR CREATIVITY IN CORPORATE SECTOR

Before understanding how to encourage creativity, it is useful to explore the factors that keep people away from approaching problems creatively. A formidable challenge for managers is how to get people to think creatively and challenge the status quo while keeping their everyday operations running smoothly. It is for the managers to decide how best to set goals and deadlines, provide reinforcement and give a measure of freedom and autonomy in order to encourage creativity.

Grameen Phone was launched in Bangladesh in 1997 through an innovative scheme that allowed people, mostly women, to buy cellular handsets with loans from the micro-credit pioneer, Grameen Bank, and then rent the phones with airtime to neighbours and become entrepreneurs. This model helped the company become Bangladesh's largest phone company in terms of subscribers. The important question is: If Grameen Phone is so successful, why hasn't this model been widely replicated in other countries with similar demographic profiles? The reason behind this, though difficult to accept, is a truth: 'good ideas aren't replicated instantly[25]'. The factors that hinder the process of creativity and discourage the display of creative behaviour in the organisational working can be classified in two categories: organisation factors and individual factors.

A. Organisational Factors

- Excessive centralisation, which restricts the free exchange of information and slows down the managerial response to communication, can discourage experimentation or innovation. This happens because delays tend to dampen the enthusiasm for doing something new.
- Organisational instability can also inhibit creative expression because unstable organisations are unpredictable for their employees, and breed insecurity and anxiety among the employees. This encourages the professionals to avoid the road less taken and follow the conventional thinking and approach.
- There is a natural conflict between corporate pragmatism and artistic passion. The creative resources need to be protected from the rationality of managers because of the psychological vulnerability of the artists. Emotional, sensitive and often egocentric artists don't respond to cold, rational arguments put forward by the managers. They must be shielded from the comments of people who don't understand them or the artistic process by providing support and empathy[26].

B. Individual Factors

- Fears of negative outcome, failure, negative social response, wasting too much money, placing the wrong bets, creating a blot on the career and personal profile discourage people to take highly innovative step and consequently they play safe.
- Tendency to first secure the job at all cost makes creativity a casualty.
- Satisfaction with the status quo and the desire to cling to one's position because of complacency and the fear of failing.
- People sometimes feel inhibited from expressing their talent. Anxiety, fear of evaluation, defensiveness, fear of being assigned additional work and cultural inhibition—all these factors prevent the demonstration of creative behaviour. The managerial practices and organisational policies that foster negative thoughts or fears among the employees about the negative consequences of their failures hinder the expression of creative talent.
- The desire to be right in everything that one undertakes the very first time is a major cause of people's inhibition towards risk taking. This has a negative impact on the evolution and development of a creative and innovative behaviour.
- Due to individual conditioning, people see only what they are accustomed to see. For example, there are certain stereotyped beliefs in organisations like: 'Salespeople are more concerned about their customers than the company', or 'Accounting department always says, no.' These established beliefs limit the imagination of individuals and affect their perception, thinking and approach.
- Saturation can also limit the ability of an individual to be original. The more familiar one gets with a situation, the more hard it becomes to see it from a different perspective.

- The human tendency to generalise and create similarities in situations, whether they exist or not, leads to the generation of similar responses to different situations. This approach kills the possibility of a novel, different or innovative response to a particular situation.

HOW TO FACILITATE CREATIVITY AND INNOVATION

The facilitation of creative and innovative behaviour can be approached from the organisation and team or individual perspectives. Given below are different interventions that can encourage creativity at the organisation and team or individual levels.

A. Organisation-level Interventions

By developing policies and practices that support creativity, the management can develop and maintain an environment that encourages a culture of creativity and innovation among the employees. Some factors that contribute to the development of such an environment are described below.

- ***Clarity about goals:*** Projects that have clear, operational objectives or goals and deadlines aid creativity and innovation. The maxim 'Necessity is the mother of invention' holds true in this situation. Really creative professionals make creativity a strategic goal and establish its direct link with the bottom line[27].
- ***Organisational Design:*** There is empirical evidence that flexibility and complexity in organisational design enhance the creative process. Flexibility permits the organisation to adopt new and different ways of doing things. Complexity promotes specialisation and autonomy. This means the project teams and task forces should be made up of individuals from diverse backgrounds and different specialisations. This diversity stimulates creative productivity by providing people opportunities to come up with new combinations and associations of ideas.

  Organisations need to break down hierarchies as they generally kill creativity by hindering the flow of ideas and also slow down the process of their implementation. Eliminating the usage of terms like 'Sir' and 'Madam' and making it mandatory for the employees to call their superiors by their first names goes a long way in reducing the power distance.
- ***Optimum Workload:*** If overloading a person with too much work can create unnecessary stress, then under-loading can take away the feeling of challenge. Managers need to ensure an adequate workload for their subordinates to keep the creative juices flowing.
- ***Reinforcement:*** Creative individuals need and respond to recognition, praise and rewards. Through provision of intrinsic and extrinsic rewards, the organisation can resurrect the creative talent that is lying dormant in its employees.
- ***Attitude towards Risk:*** As creative behaviour involves uncertainty, it calls for support and frequent communication at the interpersonal level. If an organisation supports and tolerates intelligent risk-taking (and even failure), it can develop a climate in which high levels of creativity and innovation can flourish.

  The Eleventh Commandment at the 3M Company is that 'Thou shalt not kill a new product idea.' A great example of this is 'Post-it ™' notes. The initial reaction to the product was: 'It's silly.' Market surveys were negative. But the people at 3M continued to work with the idea for years. And, finally a product was born that was a great success worldwide.

- ***Leaving Room for Creativity:*** Time should be optimally budgeted in the project schedule for thinking and experimenting, required to display creative behaviour. 3M, the highly innovative company, has institutionalised this by expecting all engineers and scientists to spend 15 per cent of their time working on non-programmed activities. The IDEA programme at Texas Instruments provides 'on-the-spot' seed money to finance long-shot projects. The project does not need to obtain the top management's approval.
- ***Institutionalised Creative Friction:*** In order to produce a constant stream of ideas, Walt Disney Co. generates a supportive conflict by creating an appropriate friction[28]. Employees can say what they think, and they are also urged to advocate strongly for their ideas. This environment can be very noisy because it encourages employees to speak their mind without fear, and challenge, cajole and provoke others.
- ***Balancing Creativity and Operational Excellence:*** Companies need an integrated system where innovation is mostly kept within the purview of the top management and responsibility for operations is delegated to the lower levels of management[29]. It does not mean that innovation should not be prevalent at lower levels of management, but it only means that where these two diametrically opposite functions should focus.
- ***Putting one Person in Charge of Creativity:*** There cannot be multiple custodians of creativity. This is especially true in case of businesses that are based on creativity and innovation. When Ranjan Kapur made Piyush Pandey the single-point custodian of creative content in Ogilvy & Mather Advertising, he knew that he was likely to lose Nilesh Patil and C. Gangadharan, the two other creative champions who didn't get the slot. Sure enough, they quit. But, Kapur's leadership had to ensure individual accountability, leaving no one in doubt over whom to praise or whom to blame[30].

  Organisations can encourage people to be more creative in their approach by making them accountable and then providing them with an ideal balance of freedom and responsibility to perform and deliver. Ranjan Kapur of Ogilvy advertising agency says, 'I believe that you get the best out of people by giving them the freedom to act. But they must be made answerable for the results. You'd be surprised to know that it is not authority that people really want, it's accountability.'
- ***Creativity as Part of Job Profile:*** It should be evident to the employees from day one that thinking creatively on how to perform one's role in an innovative manner is an integral part of their job and not merely a desirable option or add-on.
- ***Encouraging Innovation when everything appears to be Fine:*** Generally, managers look for an innovative response in the times of crisis, but that is essentially fire-fighting. They need to encourage innovation when the company is doing well. The last thing that a manager can afford to do is to become complacent when it is in the leading position[31].
- ***Hiring People from Outside the Industry:*** Because of the people's conditioning by virtue of their working in the same industry for a long time, they tend to think in a particular manner and start accepting the status quo as something that cannot and should not be changed. This creates a barrier in the path of innovative thinking. Creative people who have worked in more dynamic and customer-centric industries can bring in fresh perspectives to more traditional business categories[32].

- ***Employing People with Diverse Skills and Talents:*** Bringing in people with fresh and different perspectives to the issue or concern under consideration can help the organisation challenge the status quo while developing business strategies. People with different backgrounds bring different frames of reference to a problem and can spark an exciting and dynamic exchange of ideas.
- ***Not Focusing Too Closely on the Competitors:*** If one maps out different types of innovation activity in a particular industry, it will become evident that most of the organisations are concentrating or investing in the same things, just to keep up. In the process, they miss out on all sorts of opportunities for innovation. Therefore, companies need to think different and out of the box to come up with innovative solutions that are distinct from those of the competitors. This endeavour would provide a unique competitive advantage by creating a differentiation and not a me-too image.
- ***Respect for New Ideas:*** It's essential to build a culture where there is no such thing as a bad idea. People should neither laugh nor criticise any idea at its nascent stage because initially all the innovative ideas appear to be somewhat impractical or even foolish as no one has tried them before. Really innovative ideas are also criticised because most of the time they are challenging a widely accepted status quo with something radical that can't be easily digested by a conservative mindset.

  Many organisations have framed rules like never to say 'that's silly' when someone is thinking out of the box and sharing his/her ideas with the group. The respect for the innovative ideas at a nascent stage ensures that they get a chance to be developed further to an extent for others to see some benefit into them.

  At the heart of radical innovation are bold visionary individuals who are fiercely proud of what they do. Often, they exhibit 'unreasonable' behaviour and end up becoming the heroes of the business revolution they inspired[33].
- ***Sharing of Ideas among the Team Members:*** The sharing of ideas among the team members creates an opportunity to get as many ideas as possible out of individuals' heads and into the group's heads. These ideas then become the collective puzzles that infiltrate throughout the group. And, after some time, someone, not the originator of a particular idea, has a breakthrough insight into it that allows the entire team to move forward. For example, in computer software industry, the best ideas lose their owners and take on the lives of their own[34]. Open source software are a good example of this application.
- ***Creating Forums for Creativity and Innovation:*** Chat rooms and news groups; conferencing systems; and technologies for surveys, voting and joint document preparation need to be instituted so that the employees can share information on creative and innovative ideas with one another. It has been observed that worthwhile innovations in some organisations came from the employees via e-mail.

  Organisations can create 'Community of practice' or a small group of employees that meets regularly to discuss common interests. These groups are ad hoc gatherings of people from many parts of the organisation, but their importance goes far beyond information exchange. Their collective attitudes can add a new dimension to organisation's culture. In their article 'Communities of Practice: The Organisational Frontier', published in *Harvard Business Review*, management consultants Etienne Wenger and William Snyder[35] refer to these gatherings as 'Petri dishes for entrepreneurial insights.' Members in these groups suspend judgment and allow others to toss out suggestions in an atmosphere of cooperation and support rather than competition and criticism.

- ***Tough love approach to new product development:*** The availability of too much time for a project can make it a breeding ground for internal politics. Similarly, too much money can become a crutch for creative thinking. Reasonable but firm deadlines and tight budgets keep people focused on creating viable products and getting them to market as soon as possible.
- ***Creating an Innovation-Friendly Environment:*** The employees need to be encouraged to spend time exploring new ideas and asking 'what if?' questions. They should not only be allowed to pursue the ideas that they think have the most promise, but they should also be provided with the required time to do so.

  By instituting team-based recognition and incentives, managers can create a collaborative environment in the teams working on different projects. Every endeavour should be made to eradicate unhealthy competition among the team members by rejecting this behaviour as a strict no. Competition infects co-workers with a desire to win rather than to solve problems and move projects forward. In the process, the employees inhibit the free flow of information, which is so vital to innovation.
- ***Instituting Discipline in Innovation:*** Although innovation is perceived to be a highly creative activity that is the forte of relatively less disciplined and less organised but highly creative people, yet innovation can be made more reliable by bringing in the necessary discipline and organised practices.

  Innovation can be addressed somewhat systematically like any other business issue in which a problem is defined, analysed and then solved by asking the vital questions like[36]:
  - What do we want to accomplish?
  - How do we like to do that?
  - What resources will we need?
  - Who will be on the team?
  - How do we motivate and reward the team members?
  - How will the success be measured?

B. Team or Individual-level Interventions

Everyone has the potential to be creative, but the extent of the potential might vary from one individual to another. It can be even lying dormant in some individuals. It is the team leader or the manager who can either inhibit or facilitate creative expressions of his team mates. Better ideas can be developed through such efforts that improve the ability of the manager and others to be more creative while executing the assigned task. Given below are some interventions that can be implemented at the team or individual level to encourage creativity in their work culture.

- ***Handling Idea Killer Phrases:*** The manager should be on guard for numerous 'killer phrases' that come up in meetings and tend to dampen the creative energies. Like any new seedling, an idea needs space, nourishment, nurturing and care until it can stand on its own. The killer phrases trample on these ideas prematurely. The manager needs to equip himself/herself with the required tactics to respond to these phrases.

The killer phrases are given by people who are negative to any radically new or innovative position. They have seemingly positive but actually negative attitudes towards innovation. They are found to be saying, 'This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before'. Or 'But it's not in the budget!' The manager can respond to it as: 'Of course not; we didn't have this idea when the budget was initially proposed'. Or, 'Do you mean to say that this organisation won't support new ideas?'

There are habitual no sayers who always have an excuse for not doing a particular thing. Their stock response is: *'We tried that before!'* The manager can explain to them that, *'Now it is different in the following ways:…………'*

Sir Francis Bacon[37] has rightly said: 'It would be an unsound fancy to expect that things which have never been done can be done except by methods which have never been tried.' Therefore, the managers need to be tactful to handle such situations and should make others accept the fact that a new approach would be required to practically do a new thing that is worthwhile to do.

- ***Problem-sensitive and Solution-centric approach:*** It is the ability to recognise that a problem exists and strongly feel that something should be done about it. The manager can cut through misunderstanding, lack of facts, misconceptions and other obscuring obstacles and perceive the real problem. The manager should develop early warning signs that will warn him/her against the possibility of going off track and help in detecting a problem well in time.
- ***Enhancing Idea fluency:*** More is the number of ideas to select from, higher is the probability to find a better solution. Therefore, the managers should institute practices that enable a regular flow of creative ideas about the work that is being performed under their leadership. This can be achieved by separating the process of idea generation from idea evaluation. Premature evaluation stops the generation of new ideas. Robert Swerington, former Chief Executive Officer at AMACO, was asked: 'Why is your company so much more successful than your competitors at drilling wells which strike oil?' His reply, 'Because we drill more wells!'
- ***Pure Originality is not what a manager always need:*** In practical, day–to-day problem-solving, complete newness or pure originality is usually not what a manager always requires. He/she is looking forward to alter existing conditions to find new ways to adapt the existing ideas to new conditions, or to develop a new modification of something to fit in an existing condition.

  In May 2001, Tesco introduced a service using which the blind people could shop easily on the Internet. By converting text to speech, the new system gave them a description of the products displayed on a webpage and helped them complete the online buying process. Since shopping is not an easy task for the blind people, the company expected that they would readily accept the option to shop online from home—naturally translating into higher sales for the company[38].
- ***Visualisation:*** Visualisation seems especially important for being creative. Friedrick Kekule[39], the famous chemist who discovered the structure of the benzene ring, did so in a dream after having devoted considerable conscious thought to its enigmatic structure. A computer programmer has also to visualise how an individual would use a software in order to write a user-friendly software.
- ***Being Flexible:*** Flexibility is the willingness to consider a wide variety of approaches and the interests of the parties involved in a situation. Rather than quickly accepting a particular idea,

technique or a viewpoint, the manager should be open to examine the optimality of the suggested solution and ready to look for a second one. The manager can also employ the strategies to challenge the team to go beyond the initial solution.

Flexibility involves viewing a problem in different ways: What is the customer's viewpoint? How would this problem be perceived in the budget office, on the shop floor, in the corporate boardroom, in the trade magazine, etc? By failing to look at situations from multiple perspectives, a manager often limits his/her creative potential for generating an optimal response or solution.

For example, conventional thinking states that if car bodies are soft they can absorb shock, but they would not be safe in case of an accident. On the other hand, if the body is hard it is heavy and does not absorb shock and would get dents in case of accidents. Honda is developing Jellybean car with a soft body that absorbs shocks[40].

- ***Encouraging Risk Taking and Creativity:*** The employees generally have a tendency to play safe because risky endeavours can threaten their job prospects in the organisation. But, the manager needs to understand the fact that anything significant cannot be created without taking any risk. It is very well said, 'If you risk nothing, then you risk everything.' The most successful managers and task force leaders realise that like the turtle, they make significant progress only when they stick their neck out.

  The manager needs to give an environment to his/her team members in which they feel confident that if the risk they are taking to create something meaningful leads to a failure, their leader would not threaten them with dire consequences. Until the manager stimulates and excites his team members to approach the problems at hand in a creative manner irrespective of the risk involves, they will not take the risk on their own. The manager and his team need to understand that boats are the safest on the shore, but that is not the place they are meant for. If they continue to lie there, nothing significant can be expected to happen on its own. Risk taking is the midwife to creativity.
- ***Extended Sessions:*** Extended sessions of the idea-generation meetings can be organised to encourage creativity because the first few hours may be a complete waste of time. The younger executives want to impress the older executives. The shy executives want to be shy. The loquacious executives dominate the room. Eventually, everybody gets hungry, tired, angry and eager to leave, but everybody also becomes equal. After few hours, it gets really creative and the best ideas come out during the last half hour[41].
- ***Challenge people's beliefs constantly:*** The manager needs to challenge the people's beliefs constantly by asking questions like, 'Why do you think like that'. Or, What makes you believe that? Answers to such questions bring in more clarity to the team members and the manager much before an idea is implemented[42].
- ***Passion for Work:*** The employees should be given space to do the things they are passionate about or a passion is created among them for the things the organisation wants them to deliver. The pharmaceutical industry normally takes many years to develop a single molecule from the lab bench to the pharmacy shelf. In an environment of long time frames, one needs to have passion to sustain oneself.
- ***Bending the Rules:*** Sometimes, it may not be possible to create something radically different without bending the rules. In such situations, the managers have to develop Nelsonian eye to the

issue under consideration to give an innovative response, without which it may not be possible to solve the problem.

- ***Leaders need to get Engaged:*** The process of creativity is more collaborative than supervisory. Therefore, the managers need to monitor the progress of small successes and failures with an evenhanded, open curiosity about the lessons learned and the next steps to take. Listening is more central than talking to the process of getting engaged for encouraging creativity. For this to happen, the managers need to ask pertinent questions like: What's new with the project? What kinds of problems are you having? What might be the next steps? The managers have to ensure that conversations are less about whether the project is succeeding or failing, and more about what is the experience and what can be learned from it. They need to show interest and express support.
- ***Barn Raising:*** Psychologist Michael Kahn[43] suggests a way of conducting meetings, which he calls 'barn raising', a model to encourage creativity and innovation. According to this model, rather than involving in one-upmanship, the members are encouraged to listen carefully to each person's idea and then add their thoughts to it to see if they can build that idea into a more valuable contribution. Such an atmosphere of exploration lets group members search diligently for value in ideas that might otherwise have been discarded. They also feel comfortable knowing that their suggestions will receive the same treatment.
- ***Examining losses of non-implementation:*** Using a method devised by the consulting firm Strategos, six-person 'Game Changer' teams met weekly to assess ideas. As Gary Hamel[44], the head of Strategos, reported, the Game Changer teams assessed 320 proposals during their first two years of operation at leading petrochemical giant Shell. The proposals were evaluated not only on the basis of what Shell stood to lose by pursuing the suggestion, but also what it could lose by not doing so.

INNOVATION: A CRITICAL ANALYSIS

There are many facets of innovation that require a critical analysis to have a balanced perspective about this vital phenomenon. The following sections throw light on these facets.

(a) ***Extent of Innovation:*** Innovation is often the easiest way to compete for shelf space, protect market share, repel a competitor's attack and gain media attention. But, this pursuit of innovation can be taken too far. The regular launch of new products can add complexity to a company's operations. This can lead to a significant rise in the cost of managing and an adverse effect on the company's profitability. Therefore, companies need to find the right balance between complexity and innovation by determining the number of product or service offerings that would optimise their revenues as well as profits[45].

(b) ***Moving Beyond Success and Failure:*** The fear of failure and the desire for success are closely linked. In order to only win, the managers and employees in an organisation might not attempt anything that can lead to failure and will do only those things which are certain to succeed. Therefore, organisations need to make their teams think beyond success and failure by avoiding giving either too much praise for success or too much criticism for failure. 'I didn't get consumed by losses,' said the legendary NFL coach Don Shula, 'and I didn't get overwhelmed by successes.'

Organisations need to accept the philosophy that it's okay to be wrong and to admit it when you are. They should build a culture that admitting mistakes does not reveal weakness, but shows the self-confidence of a person. GM's Kettering, America's leading inventor, liked to say that a good research man failed every time but the last one. He felt, 'that it's not a disgrace to fail, and that you must analyse each failure to find its cause…. You must learn how to fail intelligently. Failing is one of the greatest arts in the world. One fails forward towards success.'

Ford Edsel was the biggest new-car failure in the automotive history. What very few people seem to know, however, is that the Edsel's failure was the foundation for much of the company's later success[46].

(c) ***Discipline and Deadlines—Balancing Freedom and Autonomy:*** In many fields, time pressures can also prove to be productive. It has been said that creative people in the advertising world work best while 'under the gun'. Deadlines and creativity are not necessarily in conflict with one another. A good number of technological innovations were created to fulfil President Kennedy's goal of putting the man on the moon by 1970. Mozart finished one of the world's greatest operas by working through the night preceding its premiere.

But the imposition of very stretching deadlines can force the acceptance of the first creative response and discourage an individual from looking beyond. Individuals must be free to create. The freedom from ridicule and fear is important. There must be an opportunity and time to engage in preparation, incubation, reflection and other elements of the creative process. Yet freedom and autonomy do not necessarily mean abandoning guidelines or constraints and provision of unlimited time. Creative individuals can live and perform within budgets of time and money.

An infinite amount of time to do a project does not always make it creatively better. Although artists and designers are always depicted as crazies, yet in reality, insane artists are rare. In fact, some of the most creative people like Steven Spielberg, George Lucas, I.M. Pei, Frank Stella and Frank Gehry, just to name a few are the most organised, mature individuals[47].

INNOVATION IN THE INDIAN CONTEXT

The following elements need to be taken into consideration in addition to the principles cited above for developing innovation for the Indian context[48].

- ***Cost Reduction gets more Business than Feature Enhancement:*** In developed countries, costs are such that the products are largely affordable. When markets get saturated, R&D focuses on enhancing the features of products and services. But, if one is doing R&D for the Indian markets, then one must understand India. In India most modern products are sold to just a small percentage of the total households. If they are made affordable for more people, the market size for these products would explode. Nirma, that reduced the market price of detergent by a factor of about 2-3, actually enhanced market size by a factor of 10. Thus, the cost reduction to make the product more affordable is the key to getting a larger market in the Indian context.
- ***Rural Market is Different and Price-sensitive:*** There is a large rural market which is different from that of the cities, and this market needs to be catered to in a different manner. Business models based on urban thinking patterns may not be that successful in rural markets. Organisations would have to ruralise their R&D efforts to develop products and services that can be successful in

rural markets. The main task of companies to win in these markets is to break the cost and pricing barrier.

- ***Letting the Technocrat Lead the Enterprise:*** Padma Shri Sreedharan, former CMD of Konkan Railway and head of Delhi Metro Corporation, cited the case of Keltron, a premier electronics company of the Kerala government. It was started by a technocrat and quickly became a leading Indian electronics company. In its early years, the leadership and control passed on to bureaucrats. Today a bureaucrat is the CEO while engineers and scientists with 30-35 years of experience have hardly any say in the running of the company. Today Keltron is heading for closure[49]. Konkan Railways was led by the technocrat and achieved significant success. Sam Pitroda, another technocrat leader, sowed the seed of the telecom revolution in India.

CONCLUSION

Creativity and innovation consist of seeing what everyone else has seen, thinking what no one else has thought and doing what no one else has dared! It is rightly said by Erica Jong: 'Everyone has a talent. What is rare is the courage to nurture it in solitude and to follow the talent to the dark places where it leads.'

Points to Remember

1. Creativity is the tendency to generate or recognise ideas, alternatives or possibilities that may be useful in solving problems, communicating with others and entertaining ourselves and others. Innovation usually involves creativity but is not equivalent to it. Innovation involves implementing creative ideas to make some tangible difference.
2. There are many different forms of creativity: artistic creativity, communication creativity, profession related creativity, etc.
3. Van Gundy identified following creativity principles, which can help an individual to enhance his/her creative potential: Test All Assumptions, Defer Judgment while Generating Ideas, Positive thinking, Top Management Support, Giving Examples, Elimination of non-practical solutions, Working with High Performers, Challenging Goals and Deadlines.
4. Some sources of creative ideas are: customers, competitors, peers, published literature, patents, and the subconscious mind.
5. The term innovation means a new way of doing something. It may refer to incremental, radical and/or revolutionary changes in thinking, products, processes or organisations.
6. Drucker (1985) gave the following principles that determine the effectiveness of the creativity and innovation process: innovation has to be simple, focused and directed toward a specific application; start small; innovation is hard, focused and purposeful work rather than plain genius; innovation, like other business functions, is a management process and requires specific tools, rules and discipline, not just creativity, novel thinking and ideas.
7. Innovations can be classified: According to their applications (Innovation of the Product, Innovation of the Process), and according to the degree of originality (Radical Innovation, Incremental Innovation).
8. According to Drucker (1985) innovation can originate from a variety of sources like: a flash of genius; from a conscious, purposeful search for innovation opportunities; looking for innovative ideas within

a company or industry in the form of unexpected occurrences, incongruities, process needs and industry and market changes; outside a company in its social and intellectual environment (demographic changes, changes in perception and creation of new knowledge); from incongruity within the logic or rhythm of a process; incongruity between expectations and results.

9. Innovation process goes through the following three stages: Reconnaissance, Evaluation, Investment or Implementation.
10. The successful execution of the process of innovation involves: Developing a strategic framework to align creativity and innovation with corporate objectives; transforming problems into opportunities; encouraging risk taking and removing the fear of failure; developing an ability to recognise innovative opportunities; developing competency in creative thinking by providing training; looking at contradictions and mutually exclusive functions and trying to bring them together; ensuring cross-pollination of ideas; setting challenging goals that are appealing; establishing a culture of creativity; developing a mechanism to minimise the risk associated with creativity and innovation; increasing recognition of the innovative people; and getting commitment and support for creative ideas.
11. Challenges for creativity in the corporate sector can be classified as: Organisational Factors (excessive centralization, organisational instability and natural conflict between the corporate pragmatism and artistic passion) and Individual Factors (fear of negative outcome, tendency to first secure the job, satisfaction with the status quo, inhibition in expressing the talent, desire to be right in everything that one undertakes in the very first time, prior-conditioning, saturation and human tendency to generalise and create similarities in situations whether they exist or not).
12. The organisational-level interventions to encourage creativity are: clarity about the goal, breaking down organisational hierarchies, optimum workload, reinforcement, institutionalised creative friction, balancing creativity and operational excellence, putting one person as charge of creativity, creativity as part of job profile, encouraging innovation when everything appears to be fine, hiring people from outside the industry, employing people with diverse skills and talents, not focusing too closely on competitors, respect for new ideas, ensuring sharing, creating forums, tough love approach to new product development, creating an innovation-friendly collaborative environment, and instituting discipline in innovation.
13. Team or individual level interventions include: handling idea killer phrases, enhancing idea fluency, pure originality is not what a manager always need, visualisation, being flexible, encouraging risk taking and creativity, having extended sessions, challenge people's beliefs constantly, creating passion for work, bending the rules on some occasions, engaging the leaders, barn raising and examining losses of non-implementation.
14. Organisations need to find the right balance between complexity and innovation by determining the number of product or service offerings that would optimise both their revenues as well as profits.
15. Deadlines and creativity are not necessarily in conflict with one another if they are properly aligned with one another.
16. The following elements must be taken into consideration for developing innovation in the Indian context: cost reduction gets more business than feature enhancement, rural market is different and price sensitive, and letting the technocrat lead the enterprise.

Review/Discussion Questions

1. What is creativity and what are the different forms of creativity?
2. What are the different sources of creative ideas and innovation?
3. Outline the different principles of creativity to generate creative ideas.
4. Define innovation and outline the different principles of innovation. How is innovation distinct from creativity?
5. What are the different types of innovation?
6. Outline the different myths associated with innovation and critically analyse them.
7. Explain the different stages of the innovation process.
8. What are the guidelines for the effective implementation of innovation?
9. What are the challenges for creativity in the corporate sector?
10. How to facilitate creativity and innovation in the organisational setting?
11. Critically analyse the phenomenon of innovation.
12. What are the principles that determine the effectiveness of the innovation process?
13. What are the stages of the innovation process and guidelines for the effective implementation of innovation?
14. Portray the application of innovation in the context of the Indian corporate sector.

Field Exercises/Class Exercises/Group Projects

1. A group of six students can be given lots of coloured clay (with which children play) or lots of old newspapers to make something really creative with it. Later they can be asked to narrate their experience while being creative, group dynamics and the roles played by different members while they were making the creative object.
2. Students can be asked to identify two or three most creative students in the class. Then they can discuss what made them believe that they were creative. The exercise can end by listing the personality traits of these creative students.

On the Internet

1. Log on to http://www.mycoted.com/Nine_Dots to undertake a creative thinking exercise.
2. Visit http://www.urbanmonk.net/72/16-top-tips-for-awakening-creativity-and-innovation/ to learn tips about creativity and innovation.

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Suggested Reading

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Case Study

R&D: Risk Return Trade-off

In 1994, K. Anji Reddy, a scientist and founder chairman of Dr. Reddy's, became the first Indian entrepreneur to take a plunge into new drug discovery—an effort that is high-risk, capital-intensive, with a very low probability of success. He established well-equipped labs and put together a team of highly paid Indian scientists. He built a lab in Atlanta to research in novel areas. After 15 years, Dr. Reddy's, the first Indian company to have new drug discovery ambitions, has just one drug, balaglitazone for Type 2 diabetes, in Phase 3 or advanced human trials. Even for that the progress has been slow, and the drug's future is still uncertain.

In the face of such dismal results, because of a string of reversals, Dr. Reddy's, the second-largest pharmaceutical company of India with sales revenue of Rs. 6,900 crore restructured its drug discovery operations. The basic research lab in Atlanta has been closed. Most of the employees at the Indian unit engaged in the completely new drug discovery have been transferred to other units and subsidiary companies. The 15-year-old new drug discovery programme has been truncated into 'differentiated formulations' or improvements to known medicines. Such products are lower in the innovation hierarchy, but have shorter gestation period than completely new drugs, which can take 10-12 years to move from lab to market. This decision which is likely to save $10-15 million in fiscal 2011 signals a complete shift in the research-based business model of the company.

The management decisions with respect to R&D in drug discovery are based on risk-return trade-off. In new drug discovery, more molecules fail than succeed, and costs run into millions of dollars. It is a cash-guzzling effort—higher the risk, higher the return. The management has to ask how much risk a company can afford to take–what is the risk appetite of the company at a particular period of time?

The decision to truncate the drug discovery programme brings to an end the dream of Anji Reddy to create an entirely new Indian drug. The present management feels that it can't afford to be romantic about the science; it has to be pragmatic about it.

Question for Discussion and Analysis

What challenges are associated with R&D? How can an organisation handle them?

Chapter 22

Change Management

Management is nothing more than motivating other people.

—Lee Iacocca, Former Chairman, Chrysler

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- comprehend the different types of organisational change and factors responsible for them
- understand the different approaches towards managing change
- explore the factors affecting successful implementation of change
- identify the reasons behind resistance to change, and strategies to reduce resistance to change
- know about the different aspects, states and constituents of change management
- understand the different models of change management

INTRODUCTION

Nobody can underestimate the importance of effectively managing the change in the present context when the business environment is changing at an accelerating pace. Businesses are finding it hard to learn how to survive and thrive in the chaos and uncertainty created by the whirlwind of change brought about by the convergence of different technologies. But it is evident to one and all that businesses must constantly evolve and innovate in a rapidly changing environment to stay competitive.

Change is linked with changing customer needs, designing new technologies for meeting customer needs and evolving new managerial practices[1]. Even though change has always been a part of the manager's job, its importance has increased manifold in recent years because the environment is forcing businesses to significantly change the way they have been doing things for years. The organisations of the 21st century must be built around the concept of flexibility so that they are capable to adapt, adjust and change as per the environment. This very fact is evident from the observations cited in Exhibit 22.1.

Exhibit 22.1	**Reasons for IBM Debacle in 1990s**

For decades, IBM was a clear technology leader working at the cutting edge of technology. But, by the early 1990s, IBM was losing billions of dollars. How did this happen? Gerstner, IBM's Chief Executive from 1993 to 2002, diagnosed the following reasons for this debacle:

(a) Employees had largely stopped listening to customers or competitors.

(b) A culture, designed to allow all voices to be heard, created a fragmented system of fiefdoms where any unit manager could 'non-concur' and stall the needed changes.

(c) In order to capture everyone's opinion, the company developed a huge bureaucracy for vetting new initiatives, but it resulted in discouraging individual accountability.

(d) IBM's earlier extraordinary successes were also partly responsible for its problems.

Source: Landry, J.T. (2003). 'Books in Brief: A Review of Who Says Elephant Can't Dance? Inside IBM's Historic Turnaround by Louis V. Gerstner, Jr.', *Harvard Business Review*, Motivating People, January 2003, Vol. 81, No.1, p. 22.

Types of Organisational Change

Organisational change refers to any slight modification or a drastic shift in an organisation's people, policy, programme, structure, technology or any other element that impacts the organisation. The organisational changes can be classified into the following three types.

1. ***Strategic Change:*** A strategic change occurs with any alteration in the core of a business organisation, like its vision, mission, goals, objectives, strategies, etc. This change affects the entire organisation in one way or the other.
2. ***Structural Change:*** It occurs with any change in the following: structural design of the company, systems of working; functional areas and technologies; and organisational tasks, procedures, policies and rules. It can also include the introduction of new products, models and variants that require modifications in different processes, like manufacturing, delivery, sales and marketing, etc. It may also involve the introduction of new policies, rules and regulations, and new procedures and methods of performing specific tasks.
3. ***People-Centred Change:*** It represents changes in the skills and performance of employees. It can be brought about through training and replacement of present employees.

Factors Responsible for Organisational Change

Understanding the factors that lead to different types of change in an organisational setting is the first step for a manager to learn how to effectively manage the change. Various factors responsible for organisational change may be grouped into two categories: External Factors and Internal Factors.

(a) ***External Factors:*** These factors are related to the events that occur outside an organisation and are beyond the control of the organisation. The organisation is bound to change itself in accordance with these factors in order to execute its operations, compete in the market and serve its customers in an effective and efficient manner. Some of the external factors are outlined below.

1. **Changes in market conditions:** As per Michael Porter's Five Forces Model, the two of the five forces that significantly affect the competitive position of an organisation in an industry are: organisations supplying the same products (internal rivalry) and buyers who are buying the products (bargaining power of buyers). Any change in these forces alters the competitive position of an organisation in the industry. Aligning the business with new scenario may warrant suitable changes within the organisation to enable it maintain its market position.

2. **Technological changes:** The competitive position of an organisation is affected when there is change in its technological environment, or its competitors adopt new technology. The organisation may become relatively less efficient or effective in serving its customers in comparison with its competitors. As a result, it is forced to change or adopt new technology. For example, provision of the networked ATM facility by different foreign and private sector banks forced the Indian public sector banks to do the same.

   The information technology has impacted businesses tremendously. Once Bill Clinton stated in a lecture that when he became President in 1993, there were a mere 50 websites in existence but when he left the office eight years later, there were 350 million of them, and rising. Therefore, the present-day organisations will have to develop an appropriate strategy so that their business is not negatively affected by the advent of widespread e-commerce.

3. **Social changes:** Over a period of time there are changes in people's needs, desires, aspirations and their way of living and working. These changes affect both the expectations of employees as well as the buying behaviour of customers. Therefore, organisations need to adjust their policies, practices, products and services, and strategies to align themselves with the needs of their customers and employees.

4. **Political and legal changes:** Political and legal factors significantly determine the activities that can be pursued by an organisation and the methods which can be adopted by it for accomplishing its objectives. For example, the introduction of Bharat III norms for pollutant emission by automobiles requires the automobile manufacturers to modify their operations for designing such engines that meet Bharat III norms.

   Similarly, with the change in the political establishment the policies and priorities of the government also change. This compels organisations to realign their business operations. For example, the thrust on rural lending by the government has made it mandatory for the banks to go rural by opening rural branches or adopting other mechanisms. It has necessitated a change in the banks' organisational working.

   Sudden changes in the political environment can even threaten the existence of a well-established business[2]. For instance, Sunil Bharti Mittal's trading business, Bharti Overseas, became the country's largest importer of portable diesel generators in just four years after being established in 1980. His big test came when the import of diesel generators was banned. Mittal's business vanished overnight.

5. **Trans-National Corporations**: Trans-national Corporations (TNCs) are one of the major agents of change in the present-day business scenario. Businesses have to keep pace with the changes in the business environment brought about by the advent of TNCs in their industry. Parle decided to sell its flourishing and well-established soft-drinks business to Coca Cola when the latter decided to start its soft drinks business in India.

(b) ***Internal Factors:*** Any change in the factors that are internal to an organisation also necessitates bringing in a change in the manner in which things are done. The two internal factors of change are described below.

1. **Change in Managerial Personnel:** New managerial employees bring along with them their own ideas, managerial approaches, philosophies and way of working in the organisation. As a result, they make an attempt to introduce those practices and the organisation has to change accordingly.
2. **Weaknesses in the Organisation:** The management might decide to overcome certain weaknesses that are plaguing the organisation by introducing new interventions. These changes might be introduced in the form of new policies, approaches and strategies.

Approaches towards Change

There are various ways in which people respond to change. The different approaches in which people respond to the phenomenon of change are classified into the following categories.

(a) ***Reactive Approach:*** A change creates a sudden sense of urgency and the people who are affected or going to be affected by it start reacting to it more on the basis of their natural instincts with little planning. This is, unfortunately, the most prevalent but not the most effective approach to change. The following problems are associated with this approach towards change:

- The solution suggested to manage the change in the environment may not be the optimum one.
- The suggested solution may solve a problem but in process may create other problems. The new problems created by the solution may be bigger than the one that it intends to solve.
- The suggested solution may lead to resistance from the employees.

(b) ***Responsive Approach:*** This approach involves development of a detailed plan to tackle the change. In this approach, a manager responds to the change in a planned manner by taking into account the following aspects:

- Properly understanding the various facets or aspects of the change, to define it in a comprehensive and specific manner.
- Properly evaluating the pros and cons of different alternative solutions before selecting the optimum one to manage the change.
- Selecting the most optimum solution in accordance with the given situation.
- Planning the implementation strategy in detail so that there is least amount of resistance when the solution to manage the change in the environment is implemented.

(c) ***Proactive Approach:*** This approach towards change involves being conscious of how the external and internal environment of the organisation is likely to be in the near and distant future. This awareness helps the manager analyse different options and strategies that he can implement well in time to align the organisation with the potential changes in the business environment. In this approach, the manager is adequately prepared in advance to manage the change with the highest productivity. This also ensures that the change is gradually absorbed in the system, with least resistance.

For example, Shell plans for different levels of crude oil prices per barrel—from the highest one to the lowest one. The organisation already knows what should be their strategy and response if the crude oil price reaches a particular level. In proactive approach, it is easy for the employees to absorb the change and adapt to it because they are mentally prepared about the organisation's response to that change.

Companies have to create an environment where people expect change, cannibalise their own products instead of waiting for the competitors to do it and render their own production processes obsolete rather than letting somebody else do it to them[3].

(d) ***Creative Destruction Approach:*** This approach states that companies need to identify the sources of their underperformance and then aspire to change at the the market pace through introduction of drastic changes and creative destruction[4]. This can be achieved by getting out of businesses that are not likely to give good returns (in spite of good operational efficiency) and entering into industries that are likely to have a better future. Companies such as GE have been able to figure out the newer industries to move into and to trade out of the older, less profitable ones.

This approach has enormous risk associated with it. Therefore, companies should adopt it after taking into consideration their internal and external environment. It may be good for some companies to not go for drastic changes and maintain the status quo and focus on improving the operational efficiencies.

Factors affecting Successful Management of Change

The successful management of change is influenced and affected by the following factors.

(a) ***Institutional Factors:*** Organisations are socio-technical systems. Certain institutional factors are unique to every organisation and these affect the successful implementation of any organisational change. Neglect of any of the institutional aspects discussed below can have a negative impact on the outcome of the change management exercise.

(i) Organisational Culture: The organisational culture affects the entire process of change management because it strongly influences the manner in which individuals approach and deal with the phenomenon of change.

(ii) Support for Change: The extent and type of support for any change in the form of public statements, policy formulation and provision of financial and other resources affect the implementation and outcome of a change. In the top-down approach, support is usually provided in the form of funding, extrinsic rewards and infrastructure. In the bottom-up approach, support comes as voluntary participation of people in implementing the projects to manage change. These people are happy with the intrinsic rewards that they get from their participation in change management.

(iii) **Nature of the Business**: It is relatively easy to bring in change in the new economy businesses, whereas it is not that easy in the traditional businesses with highly established norms, entrenched hierarchies and associated bureaucracies.

(b) ***Nature of Change:*** How easy or difficult it would be to implement a change and accept its likely outcome also depends on the nature of the change. More serious are the consequences of the change for the people, more intense is going to be their resistance to the change.

(c) ***People Involved:*** There are numerous factors related to the people dimension of change. Some of them are described below.

(i) The extent of understanding of the people about the short- and long-term impacts of change.

(ii) The degree of acceptance of the change by the affected people.

(iii) The readiness of the people to adopt the change according to the needs of the organisation.

(iv) The personality and the education level of the people to be affected by the change.

For example, the implementation of IT tools, like CRM and ERP, transform the entire working of an organisation by bringing changes in business processes and practices. But, the inability to effectively manage the human factor involved in the entire process is the principal cause of failure in these types of projects.

RESISTANCE TO CHANGE

Change is easier said then done. Even if it is beneficial, the majority of people still resist it and prefer the status quo. For example, every smoker understands that smoking is not good for health. He/she also knows the benefits of quitting the smoking habit. However, still it is not quite easy for the smoker to introduce a change in their smoking behaviour. People generally resist a change because they are afraid of its consequences which they mostly assume to be negative. So, they are happy with the status quo.

Although all organisations desire to move and change with the time, yet in reality they do not find it easy to go with the change. There are many roadblocks on the way to the desired change. Some of them are discussed below.

- ***Inertia:*** Even the successful and professionally managed companies often fail to respond effectively to big changes in their environment. Although managers of these companies usually recognise the threat early, carefully analyse its implications for their business and also unleash a flurry of initiatives in response, yet most of the time they still falter. One of the most common factors making it difficult to align with the change is 'active inertia', which grows out of success and often spreads unnoticed in corporations[5].

  Sometimes what managers consider to be their company's strengths (because they once used to be) are actually signs of its weakness. Due to inertia the top managers continue with the assumptions based on the past experience but actually the context has changed dramatically. In the new context, the strengths of the past may have actually become the weaknesses of the present. The inertia doesn't let the company to change at the required pace while a new entrant or an innovative competitor is encroaching upon its customer base and market share.
- ***Cultural lock-in:*** Sometimes companies fail to change even in the face of clear market threats. Foster and Kaplan[6] (2001) attribute it to a phenomenon called 'cultural lock-in' which represents the formation of hidden sets of rules, the cause-and-effect relationships, or mental models that,

once formed, are extremely difficult to change. Due to their long-held assumptions and beliefs, the established and successful companies start thinking that the way they do business is the correct way. They start focusing too much on their day-to-day operations, ignoring their long-term interest. This thinking could be dangerous because the market and competition continues to move and the industry dynamics keep changing with time.

The cultural lock-in is a slow process and companies notice its threat when it is already too late. It's like putting a frog in cold water, and slowly increasing the temperature by one degree every day. In such a situation, the frog might prefer to get boiled than jumping out. On the other hand, if a frog is put in hot water, it is likely to immediately jump out of it. Human beings too display this tendency as they react quickly to sudden drastic changes but sleep over the gradual but incremental changes for years until or unless they become significant problems. The belated human response to the problems of global warming and climate change points to the human failure in noticing the serious effects of harmful gradual changes.

- ***Comfort and Security of Current Methods of Working—Fear of the Unknown:*** Everyone gets so used to the comfort and security of the familiar and known that very few like the equilibrium to be disturbed. A fear of the unknown accompanies any significant change. The new scenario may require an uneasy change in the workstyle or management practice that managers may not be willing to adopt for the sake of their comfort and security.

  What it would be like after the initiation of change cannot be usually predicted with a high degree of confidence as there is a great amount of accompanying risk. Therefore, there are great disincentives to go ahead with a drastic change, and managers prefer to maintain the status quo to be comfortable within their safety zones of what is known to them. This insecurity is relatively more in that organisational setting where people have a great fear of losing their jobs.
- ***Clash of Personal and Organisational Interests:*** Sometimes, personal or vested interests of an employee or a group might get negatively affected by the introduction of a change that is good for the organisation. In such a scenario, the majority of employees come up with some justification to resist the change.

  When faced with a change, the first question that usually comes to an employee's mind is how the change will impact his/her job, pay-package or benefits, and power and authority in the organisation. The perception formed by the employee on these issues—whether right or wrong—decides the degree of the employee resistance to the change.
- ***Human Relationships:*** If the employees perceive that the proposed change is going to negatively impact their relationships, built over the years with friends and colleagues, then they will resist the change.
- ***Perception:*** There might be a belief in certain sections of employees that the change is not in the organisation's interest. This belief can create resistance in their approach towards the change. Another belief that the change is not required also adds to the resistance for it.
- ***Awareness:*** Ignorance about the reasons behind the introduction of a change also enhances resistance for it.
- ***Interdependence:*** A central feature of modern organisations is the interdependence of work, employees and departments. These linkages present a special challenge when organisations attempt to change.

Strategies to Reduce Resistance to Change

Resistance to change can be reduced by adopting the following measures and strategies.

1. ***Awareness and Communication:*** Communicating directly with employees and helping them understand the logic and rationale behind the proposed change helps in reducing the resistance against it. Educating employees through one-to-one discussion, memos, group meetings, or reports highlighting the necessity of change can also reduce the resistance for it to some extent.
2. ***Training and Development:*** Organisations can organise training programmes for their employees to develop a culture in which employees are relatively more open to change or are equipped with tools and techniques to handle or manage a change. In a scenario of continuous change, uncertainty and chaos, organisations would have to ensure through proper training interventions that their employees welcome and accept change as a normal phenomenon instead of demonstrating their resistance towards it.
3. ***Participation:*** Organisations can reduce resistance to the proposed change by identifying the people who are likely to oppose the change and making them participate in the decision-making process to plan and implement the change. This not only sensitises the concerned employees about the need and importance of the proposed change but also wins their support and agreement for the introduction of change.
4. ***Facilitation and Support:*** Organisations need to provide supportive efforts, such as employee counselling, new skill training, etc., to enable their employees prepare for the likely impacts of the change. This is a time-consuming and expensive exercise, but it could be useful in building trust and confidence among the employees who perceive that they would be negatively affected by the change. It also provides an opportunity to the employees to be in a position to handle the outcome of the changed scenario.
5. ***Negotiation:*** By exchanging something of value with the affected employees, the organisation can reduce the level of their resistance to change. For example, an organisation, which earlier had a holiday on Diwali, now wants to operate even on the Diwali day. It can offer its employees double salary for being present on Diwali or two paid leaves in lieu of that on a later date, or some other benefit that the employees are likely to perceive as valuable, to neutralise their resistance to attending office on Diwali. It is very much likely that all employees will not willingly accept the offer, but this can help the organisation at least to be in operation with limited staff. The customers too would understand that it is not possible to have a full service on the Diwali day. Thus, negotiation becomes extremely necessary when the resistance to change is expected to come from a powerful source.

CHANGE MANAGEMENT

Managers are often faced with the challenge to reduce human resistance to organisational change. They need to be adequately equipped with the relevant techniques and strategies to effectively manage change in their organisations.

Change management is a systematic approach to deal with change from organisational as well as individual perspectives. It refers to a process by which an individual or an organisation implements change in a planned and systematic manner or responds to the change in their environment. Change management involves taking something (a system, product, belief, practice, etc.) apart, reworking it (changing or modifying it), and then putting it back so that it becomes appropriate in accordance with the changed situation.

Change management represents an approach which is employed to manage change in an effective and efficient manner by clarifying the context and applying various techniques. It ensures that a change is implemented in an orderly, controlled and systematic manner for the attainment of pre-decided business objectives by effectively handling the human aspects of resistance to change.

In the present-day business scenario, change management does not end with the handling a particular change. Rather the managers are being challenged to make their organisations and employees nimble enough to accept, manage and implement change on almost everyday basis. Broadly, change management is effected in the following three ways.

(a) ***Adapting to Change:*** It refers to a process when an organisation decides to modify itself, its practices or offerings in accordance with the changed business environment.
(b) ***Controlling a Change:*** It is an attempt by an organisation to control or influence a change that is likely to affect its business.
(c) ***Effecting a Change:*** It is a proactive endeavour of an organisation to bring about a change that it believes would affect the business in a more positive manner.

Three States of Change Management

The implementation of any change needs to take into consideration the following three states that are associated with a change.

(a) ***Current State:*** The current state refers to the situation as it exists in the present. Usually, individuals are comfortable with the current state and generally prefer to be in that state only. They are likely to resist the change under the normal circumstances. The current state lays the foundation and forms the context and basis for introduction of change and its management because it may not remain relevant in a changed scenario.
(b) ***Future State:*** How things are likely to be or should be after the successful introduction of the change—this is what the future state indicates. The future state is generally not fully clear to the concerned individuals because many ifs and buts might be associated with it. The future state is the primary focus of business leaders and project teams as it describes the outcome that the process of change management is trying to achieve.
(c) ***Transition State:*** The transition state refers to the stage of change between the current and future states. In other words, in the transition state, the future state is evolving from the present state. It represents the 'implementation' phase of a change management project. It creates stress and anxiety to people who perceive they are likely to be affected by the change.

The focus of the manager in the transition state is to introduce change in a manner that minimises the resistance to and enhances the acceptance of change so that it is implemented in an effective and efficient manner.

Constituents of Change Management

Various constituents associated with change management are described below.

- ***Planning:*** A change is implemented through strategic or operational plans. In top-down approach, these plans are developed by the top management. In bottom-up approach, the subordinates, who are likely to be affected by the change, are consulted by the management while drawing plans for change implementation.
- ***Anticipating Risks:*** Every worthwhile change involves some risk. The manager involved with managing a change needs to manage the associated risk by estimating the quantum and nature of the risk in advance. This information enables him/her to be better prepared with plans and solutions to effectively manage risks.
- ***Developing an Approach or Strategy:*** Managers need to design an appropriate approach or a strategy through which they would like to introduce and implement a change with least amount of resistance and optimal results under the given circumstances.
- ***Developing Procedure for Implementation of Plan to Change:*** Managers need to develop suitable procedures, methodologies or technologies that would guide the successful implementation of the plan to effect change.
- ***Leadership:*** Leadership plays a vital role in the process of change management because leaders employ personal and position power to drive change in the organisational setting.
- ***Involvement:*** The subordinates, who are likely to be affected by change, can be made an integral part of the change management by effectively involving them in the entire process. Due to their involvement, they might become inspired to bring in change and also inspire others to follow their lead.

CHANGE MANAGEMENT MODELS

Researchers have developed different processes and models to effectively manage change. Some of them are discussed below.

- **Prosci's 3-Phase Change Management Process:** Prosci's organisational change management process, first introduced in 2002, is based on research (change management benchmarking studies) conducted on more than 2000 organisations from 65 countries across the globe over a period of ten years[7]. This methodology is based on collective experiences and learnings of real project leaders and teams gained through their change introduction projects. This model presents a methodology for implementing the organisational change through three different but integrated phases described below.
  - **(a) Preparing for Change:** The first phase in the change management plan includes development of a strategy to introduce and implement a change. This phase includes the following steps.
    - Establishing a change management team.
    - Detailed study about the characteristics of the change.
    - Analysis of the strengths, weaknesses, opportunities and threats of the organisation with respect to the change.
    - Understanding the degree of the readiness of the organisation with respect to the change.
    - Development of strategy by the team after assessing the specific characteristics of the change and the current state of the organisation.

(b) **Managing Change**: This second phase involves developing a detailed change management plan and taking actions to implement the plan. It might require development of contingency plans to overcome resistance to change or to tackle the flaws in the assumptions or to deal with an unexpected situation that emerged during the plan implementation.

(c) **Reinforcing Change**: This is a phase to stabilise the change that has been introduced. It involves collection of feedback to measure the results, diagnose the gaps, and manage the post-implementation resistance, if any. It also includes the implementation of corrective actions to solve the problems created by the incorporation of change. Celebration of successes that have resulted from the introduction of change can also help in the reinforcement of the introduced change.

- **Lewin's Change Management Model:** One of the fundamental models for understanding the implementation of organisational change was developed by Kurt Lewin[8] in the 1950s. Lewin, a physicist, psychologist and social scientist. He is often recognised as the 'founder of social psychology' because of his pioneering work in the area of group dynamics and organisational development. He explained the organisational change using the analogy of changing the shape of a block of ice. This insightful yet extremely simple model describes from where to start the implementation of change.

  Lewin's three-stage model describes the process of 'change management' in the form of three distinct steps that have to be executed sequentially to maximise the chances of success. These three steps of Lewin's model are described below.

  (a) **Step I— Unfreezing the Present**: Change is usually not welcome and is often resisted with rational or irrational justification. The reason for this response is that change creates anxiety in people who feel they would be adversely impacted by it.

  Therefore, the manager needs to reduce tension and ease the nerves of his/her subordinates as the first step to introduce a change. This involves creation of motivation for the change. People, who are going to be impacted by the change or those who even perceive that they might be impacted by the forthcoming change, need to be explained the following.

  - The reasons behind the change.
  - The importance of the change for the organisation.
  - How the organisation would make the best possible attempt to protect the interests of the people who are likely to be affected by the change.

  This explanation is given to enable people give up their reluctance and welcome the change. But if despite explanation people want to remain comfortable with the current situation, then the manager might deliberately create discomfort with the status quo so that a natural desire is created in people to change the current state of affairs. This can be done by showing them the picture of a much better future, which might create a need for change in them.

  The first step or stage of Lewin's model highlights the importance of motivation of the concerned individuals to change or their will to cooperate in implementing the change. It is based on a fundamental behavioural aspect of human that if people feel comfortable with or agree to the proposed change, then there is likely to be less resistance for the same.

  This step involves consulting various stakeholders throughout the organisation to make the whole process collaborative and inclusive. The adoption of change should not appear to be a compulsion. This motivational step is based on the philosophy that 'less resistance to change' is not the same as 'support for change'. To ensure that the change is implemented successfully, the manager needs the active support of the people who have to implement the change or who are likely to be affected by the change. This support can be won over by involving them in the entire change management process—right from the start rather than thrusting the change over them.

Therefore, the manager needs to demonstrate to the people that the difference between the future state and the status quo is going to be significantly good for them as well as the organisation. This would give them the necessary motivation to agree to the change and make it worthwhile for going ahead.

The manager should be willing to incorporate necessary modifications, wherever possible, in the original plan of change implementation by incorporating the logical views and genuine concerns presented by the people who are likely to be affected by the change. This gesture demonstrates to the concerned individuals that the consultation was not merely a lip-service but a genuine participatory and consultative effort before going ahead with the implementation. This step ensures that all the concerns about change are heard and resolved at the very first stage and afterwards everybody proceeds with full vigour and commitment towards the implementation of change.

(b) **Step II— Introduction of Change:** Once people understand the background and need for the change, it needs to be introduced in the Step II. How to introduce the change in a given situation requires a managerial competence of high order. The manager has to decide the following.

- The methodology for introducing the change.
- The pace at which the change needs to be introduced.
- The motivational tool to get the employees to accept the change.

The change may be introduced through exposure to new concepts, development of new perspectives or dissemination of new information. All the relevant information about the change implementation can be provided to enable a smooth transition from the past state to the desired future state in an efficient and effective manner with least resistance from the people who are likely to be affected by the change. Effective communication (both upward and downward) is extremely critical for the successful implementation of the change during this stage.

(c) **Step III— Refreezing the Change:** Reinforcement or stabilising of the new changed scenario or new behaviour after the introduction of the change is the last but very important dimension of change management. The philosophy behind the implementation of the third stage is that the change should always be followed up with stabilisation.

There is always some inertia among people for retaining the status quo as it used to exist before the introduction of the change. The new change is not likely to become a part of their habit till their self-concepts and values accept it. Thus, the reinforcement of the new behaviour and constant monitoring are essential at this stage till the change becomes a habit.

Therefore, once a leader brings in a change, there is need to bring in people with managerial mindsets to stabilise the newly introduced change. A leader should bring in the second round of change only after the gains from the stabilisation of the previous change have considerably been derived by the organisation. He/she should understand that for an average human being it is very difficult to be in a situation that is regularly changing and not having adequate time to stabilise and consolidate.

- **Force Field Analysis**: Force field analysis is a management technique that helps unravel or explain the dynamics that are associated with that introduction and management of change in an organisational setting. This framework, developed by Kurt Lewin[9], approaches the domain of change management by developing an understanding of all the pressures or forces which favour or oppose the proposed change for weighing their pros and cons. It classifies the factors or forces that may influence any change in social situations into the following two broad categories.
  - **(a) Driving or Helping forces**: These are the forces that initiate a change, keep it going and push the movement toward a goal. Pressure from a supervisor for improving productivity, incentive earnings, etc. are examples of driving forces.
  - **(b) Restraining or Hindering forces**: These are the forces that are restraining or decreasing the driving forces or blocking the movement toward a goal. Apathy of employees, hostility of labour unions, poor maintenance of equipment, etc. are examples of restraining forces against a drive to improve productivity.

  Equilibrium: In between the driving and restraining forces lies equilibrium. It represents a situation where the sum total of the driving forces equals the sum total of the restraining forces. This is usually reflected by the current state of affairs for an organisation. This present reality can be raised or lowered by changing the relationship between the driving and restraining forces. The forces and equilibrium have been diagrammatically presented in Figure 22.1.

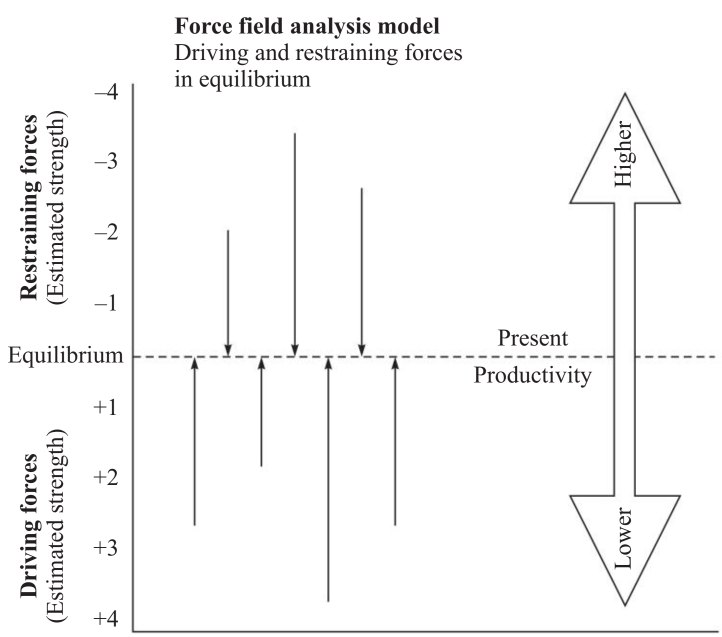

Figure 22.1 Force Field Analysis Model

How to apply Force Field Analysis

To carry out a force field analysis, one needs to perform the following steps.

- Step I: Describe the plan, goal or proposal for change in the middle.
- Step II: List all forces that are in support of the change in one column on one side of the plan/proposal.
- Step III: List all forces against the change in another column on the other side of the plan/proposal.
- Step IV: Assign a score to each force, from 1 (weak) to 5 (strong).
- Step V: Total the scores on either side of the plan/proposal.
- Step VI: Analyse whether the plan/proposal is viable or not on the basis of the total scores on either side of the plan.
- Step VII: If one decides to carry out the plan, then one can improve its probability of success by identifying the opposing forces whose strength needs to be reduced or the driving forces whose strength needs to be increased.
- Step VIII: To enhance the probability of success, identify the different interventions to reduce the scores of some restraining force and for increasing the score of some driving force.
- Step IX: Quantify that to what extent the score of restraining force will be reduced or to what extent the score of driving force will be increased by the introduction of identified interventions.
- Step X: Calculate the new total score for driving and restraining forces.

Thus, by carrying out force field analysis, a manager makes a better decision whether to implement a plan or not. He/she can also plan to strengthen the forces supporting a decision and reduce the impact of opposition to it to enhance the probability of success.

But, it must be understood that an increase in the driving forces for achieving goals in the short run can result in development of new restraining forces. Therefore, in some situations it might not be appropriate to increase the driving forces. Rather action should be taken to reduce the restraining forces. Similarly, the reduction of restraining forces can lead to development of new driving forces.

The force field analysis model uses theory, mathematics and common sense to determine the causes of human and group behaviour about a change. It is quite useful in identifying the variables involved in planning and implementing a change programme and finding ways to overcome resistance to change.

Conclusion: The nature of change has changed significantly; it is no longer linear and incremental as it used to be in the past. In the present context, it has become fierce and abrupt, with much deeper and broader implications. No organisation is isolated from it; therefore, to change is not a matter of option but a business compulsion. There is need to develop competency in the organisation to manage change in a systematic manner because the element of risk that was associated with future has been substituted by uncertainty.

It must be kept in mind that there is never any guarantee about results and outcomes when it comes to change management. But not to change is a sure-shot formula for decline, and eventually extinction. So, if one takes time to systematically plan the introduction of change, then one can at least give oneself a fighting chance of success.

Points to Remember

1. Organisational changes can be of different types, like introduction of new processes, new systems of working, new technologies, new products, new policies, new rules and regulations, new procedures and methods, etc.
2. The different approaches to the phenomenon of change can be classified as: reactive approach, responsive approach, proactive approach and creative destruction approach.
3. The successful management of change is influenced by the following factors: institutional factors (organisational culture, support for change, nature of business), nature of change and the people involved.
4. Some reasons behind resistance to change are: inertia, cultural lock-in, comfort and security of current methods of working (fear of the unknown), clash of personal and organisational interests, human relationships, perception, awareness and interdependence.
5. Resistance to change can be reduced by adopting these measures and strategies: education and communication, participation, facilitation and support, and negotiation.
6. Change management is a systematic approach to deal with change from organisational as well as individual perspectives.
7. Change management is effected in three ways: adapting to change, controlling a change, and effecting a change.
8. The following three states are associated with the change management: current state, future state and transition state.
9. The various constituents associated with management of change are: planning, anticipating risks, developing an approach or strategy, developing procedure for implementation of plan, leadership, and involvement.
10. Two main models to effectively manage the change are: Prosci's 3-Phase Change Management Process (preparing for change, managing change and reinforcing change), Lewin's Change Management Model (Step I: Unfreezing the present, Step II: Introduction of change, and Step III: Refreezing the change).

Review/Discussion Questions

1. What are the different types of organisational change?
2. What factors are responsible for organisational change?
3. What are the different approaches that are generally adopted towards managing change?
4. What are the factors that affect successful implementation of change in an organisational setting?
5. What are the reasons behind resistance to change?
6. Which strategies do you recommend to reduce resistance to change in an organisational setting?
7. Explain in detail the different aspects, states and constituents of change management.
8. Critically analyse the different models of change management.

Field Exercises/Class Exercises/Group Projects

1. Students can interview some senior manager to understand his/her experience with respect to the introduction of change in his/her organisation. Then the experiences could be discussed as a group discussion in the classroom.
2. Students can interact with some parents to understand the reasons behind the generation gap. They can be asked for suggestions to reduce, if not eliminate, the generation gap. The findings can be a part of group discussion to understand the application of the principles of change management.
3. Students can interview some local entrepreneurs to understand how the advent of MNCs in their industry forced them to change and what challenges did they encounter in implementing the required change in their organisation?

On the Internet

1. Visit http://www.change-management.com/tutorial-reinforcing-mod1.htm to understand how to reinforce change with employee feedback.
2. Visit http://learningatlightspeed.wordpress.com/2007/10/02/change-management-exercise/ to undertake an exercise about change management.
3. Visit http://www.factivities.com/change_management/CopingwithChange.html to undertake an exercise titled 'Coping with Change' about change management.
4. Log on to http://www.change-management.com/tutorial-adkar-overview.htm and apply 'ADKAR' model for change management to describe the personal change you are trying to implement with a friend, family member or work associate.

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Case Study

Whether to have Two MDs or One?

A special moard meeting of Genetech (I) Ltd. an Indian subsidiary of the US-based pharmaceutical company, is in progress at the conference hall of Taj Mumbai to discuss an important issue of the appointment of Managing Director (MD). It is not that the company did not have an MD, but it actually has two MDs. This situation has arisen because Genetech has recently acquired Herbecule Labs Ltd. a leading pharma company of India. The question faced by the company was who should be the MD of the merged entity and what role, responsibility and designation should be assigned to the second one.

Mr. Joseph Chapman, the Chairman of the board of Genetech, congratulated Mr. Deshmukh for the excellent work he has done with respect to the acquisition of Herbecule Labs. Then Mr Chapman drew the attention of the members to the integration challenges faced by the company in the post-acquisition scenario. One challenge was appointment of the head of the newly-formed Genetech Herbecule Ltd.

Mr. Hansraj, one of the board members said, 'Dear friends, I have recently attended an extensive leadership programme in a leading management institute in the US where I learnt about a newly emerging concept, which has been termed by management gurus as 'The power of two'. According to this concept, there can be two MDs as well. I liked that idea and propose that we can adopt the same model for Genetech.'

Mr. Ashish Pillai, who headed the HR function in the past and was lately inducted in the board of Genetech, immediately responded, 'I am sorry to disagree with this opinion. There is already lot of anxiety among the employees in the post-acquisition scenario and this move would confound the problem even further'.

Dr. A.N. Garg, a senior faculty at one of the IIMs and an independent director on the board, supported Mr. Pillai by saying, 'There should be one leader at the top, the system of two MDs would be a clear violation of the vital management principle of Unity of Command. The dual MD structure would confuse the employees as they might be bewildered that whose views and order they should accept in case of disagreement'.

Interrupting Dr Garg, Mr. Hansraj reiterated, 'Friends, let me try to explain you the philosophy behind my opinion to have two MDs. I believe this could be of great help in smoothening the amalgamation process by solving the hierarchical issue and it would also resolve the psychological issues, like who acquired whom, etc.'

Mr. Arunesh came forward in support of Mr Hansraj by saying, 'Friends, I also have read somewhat about this new concept in one of the leading journals. I can clearly remember that a good number of companies globally as well as in India have already tried this model because of varying reasons and have attained considerable success. Notable among them are: SAP, Google, Microsoft, Twitter, Wipro, Cipla, Tata Steel, etc'.

Dr. Garg immediately responded back, 'Mr. Arunesh, this is only one side of the coin. Let me remind you that as far as my knowledge goes, this system was also adopted by Goldman Sachs, Unilever, Citi group, etc. but it failed to be sustained for long and was withdrawn'.

Mr. Vasudeva, another board member, joined the discussion in the meantime, 'Friends, I would be failing in my duties if I do not hereby remind you all that how the novel experiment with respect to the introduction of the Matrix organisation structure at Genetech failed to take off last year. Employees did not show great preference for a system of dual bosses in spite of the great virtues associated with it.'

Mr. Deshmukh, the Managing Director, in a low voice admitted that, 'Friends, we must take into account the fact that we were busy with acquisition proceedings and could not lend an active support to the institutionalisation of the Matrix structure. So, more than a systemic failure, it was an implementation issue'.

Mr. Hansraj rejoined the discussion saying, ‘I sincerely believe that the retention of Mr. Keshav Kapoor, the current MD of Herbecule Labs, as an MD would not only help us in retaining him, but it would also send a strong signal to the employees of Herbecule that they would be treated with respect and dignity in the new entity’.

Mr. Arunesh immediately seconded him by saying, ‘That would be wonderful, as I was afraid of losing the services of Mr. Keshav who is known in the industry as a great institution builder.’

Mr. Pillai could not resist anymore and said, ‘Friends, there is abundant amount of grapevine in the organisation. One could easily hear at canteen coffee tables, in elevator, or office corridors quite often the doubts about the success of the merger of these two divergent pharma companies. This move to have two MDs would further take away lots of attention of employees and productivity is likely to suffer even more’.

At this stage when no clear direction with respect to the discussion was emerging, Mr. Chapman decided to intervene, ‘Friends, there seems to be a lot of merit in the arguments posed by both the sides. Let us break for tea with this interesting question—whether this move to have two MDs would help us in accelerating the integration process of the two companies or would it act as a hindrance? We have no previous experience with this practice and it would be a great change for all of us. We would continue the discussion in the post-tea session, and I request all of you to apply all your mental faculties to this vital issue so that we can make a decision at the end of the meeting.’

Questions for Discussion & Analysis

1. Is it the right strategy to adopt the dual CEO model? Support your answer with suitable reasons and examples.
2. Would it be right for this new entity formed as a result of acquisition to adopt this model?
3. How the system of two MDs will actually work? Whether it would be successful or not? Comment.
4. Whether the institution of two MDs would facilitate the amalgamation process or further delay it? What are your opinions about it?

Chapter 23

Technology Management

We cannot continue doing what we have always done, tomorrow cannot be just more of yesterday. We need flexibility and pragmatism, as much as innovation, but the stress must always be on action[1].

—Lee Iacocca, Former Chairman, Chrysler

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand technology management
- comprehend the role of technology in a business organisation
- know the factors affecting management of technology
- explore the process to incorporate technology in an organisation
- understand the challenges in technology management
- know how to manage technology

INTRODUCTION

As the business environment is changing at an accelerating pace, managements need to continuously align themselves with the ever-changing context. Technology plays a key role first in bringing the desired change and then as a facilitator and tool handles this change in an effective manner. Therefore, the present-day manager needs to be adept in managing the technology to sustain and grow his/her organisation in the highly competitive corporate world.

ROLE OF TECHNOLOGY IN BUSINESS

Business organisations can reap the following benefits by using technology in their functioning.

(a) Technology not only helps in implementing the business strategy in an effective and efficient manner but also enables the creation of strategic advantages for the business organisation.
(b) It can lead to the automation of manual tasks to bring in standardisation of products and services and increase the efficiency of the entire business operation.
(c) Information technology (IT) tools and computer integrated machines can make the reporting of the desired information in an efficient and effective manner for better and faster decision-making.
(d) IT tools also enable integration of management systems and facilitates faster analysis of information for better decision-making.
(e) Technology upgradation can lead to improved standardisation of products and services.

TECHNOLOGY MANAGEMENT

Technology management is a systematic endeavour to manage technological issues in an organisation to create a competitive advantage. It can also be defined as the integrated planning, design, optimisation, operation and control of technological products, processes and services, for the use of technology for human advantage.

Technology management has emerged as a discipline that integrates the application of science, engineering and management capabilities to meet the technological requirements of an organisation. Through technology management the life cycle of different technologies is managed for the achievement of organisational objectives. Thus, the main role of technology management is to understand the value and appropriateness of a technology for an organisation. Technology management primarily focuses on the following key decisions.

(a) ***Technology Strategy:*** It represents defining the role of a technology in attaining the goals and objectives of an organisation.
(b) ***Technology Mapping:*** It involves identification of different relevant technologies in a particular field that can fulfil the technological requirements of an organisation.
(c) ***Technology Road Mapping:*** It is a step-by-step process to select a technology that appears to be most suitable to meet the organisation's need and then implement and integrate it with the different operations of the organisation. Technology road mapping is done by taking into consideration the different technologies that are currently being employed by the organisation (Technology Portfolio).
(d) ***Technology Project Portfolio:*** It includes the different projects on which research the organisation is doing at a particular time for the development of technology. The organisation has to decide the area in which it will undertake research and the number of projects it would like to pursue during a particular period of time.

Functions of Technology Management

Under the technology management function, an organisation analyses and takes decisions on the following issues.

(a) What are the technological requirements of the organisation?
(b) Which are the most appropriate technologies for the organisation?
(c) Whether to acquire a technology or to develop it in-house?
(d) When to invest on the development of a technology and whether to withdraw a technology development project if the work on its technology is not adding value for different stakeholders?
(e) How much should an organisation invest for the technological development in a particular period of time?
(f) How to integrate the existing technologies with the newly-developed or acquired technologies?
(g) How to manage the change that accompanies the application of a new technology?
(h) How to develop the human resources to enable them make the best use of new technologies?

Factors Affecting Management of Technology

The decisions of an organisation with respect to management of technology are strongly influenced by the following factors.

(a) ***Technological Environment of the Industry:*** The rate at which new technologies are emerging depends on the type of industry to which the organisation belongs. In some industries technological cycles are extremely short, like six months to one year, whereas in others the cycle lasts for many years. It has become vital for the organisation's strategists to recognise the limits of their existing and core technologies and to know about new technologies and to decide about their incorporation in the products' manufacture.

    In a research conducted by PEW Research Centre in America, 1489 adult Americans were interviewed in December 2008. The research revealed that for the first time, the Internet overtook newspaper as a principal source of news. Forty per cent of respondents got their news from the Internet, whereas 35 per cent got it from newspaper[2]. In the light of this development, it is important that organisations that publish newspapers should develop an online strategy in time, so that they are able to face the increasing threat to their business from the Internet.

(b) ***Investment:*** Large investments in research are required for achieving technological breakthroughs, which have social significance and huge profit potentials.
(c) ***Risk:*** There is a risk of a product being duplicated or closely imitated, which can severely affect the recovery of the investment made by the organisation in developing that product.
(d) ***Faster Technology Obsolescence:*** Because of the shorter product life cycles, the technology obsolescence is happening at a much faster pace than it happened in the past. The organisation has to ensure that the investments it intends to make in a technology not only deliver a decent rate of return but also provide a favourable cost-benefit analysis. Therefore, technology development is a high-risk, costly and uncertain activity.

Rapid development of new technologies and the upgradation of the existing ones are causing a serious strategic stress for companies in almost every type of industry. Because by the time organisation plans, decides, acquires and effectively integrates a technology in its business, it is generally on the verge of becoming obsolete and is replaced by an advanced version of the same technology or a completely new technology.

People involved in the acquisition of technology should make an attempt to bargain for the provision of future upgrades at attractive terms and conditions while signing the purchase order.

(e) ***Technological Dependence:*** There is also an option not to invest in the development of a technology but to acquire a similar technology from developed countries or large multinational companies. But, the technology import usually comes with a rider of huge annual royalty cost. Besides, there is the accompanying threat of technology dependence on these companies.

(f) ***After-sale Technological Support:*** The after-sale technological support in the form of training of technicians and supervisors, provision of replacement parts, etc. is of paramount importance for technology management in case of imported technology.

(g) ***Technology Leadership:*** If an organisation is a market leader and its technology is superior to its competitors, then it can enhance its leadership by implementing new technologies or identifying and introducing new applications of existing technologies. On the other hand, if a business's technology lags behind its competition, it can take a technological leap to become a state-of-the-art business technology-wise. Or, it can identify and address those issues that are a hindrance in terms of adopting new technologies. 'The first in the market has a leadership tone, and people like to stick to leaders, and in contemporary industries, like IT or telecom, you have to constantly anticipate customer needs and meet them', says Sandip Das, COO, Max Touch.

In the light of the factors discussed above, organisations have to take and implement technology-related decisions in an extremely cautious manner. This very fact is evident from the findings cited in Exhibit 23.1 about the performance figures of Nokia in the Indian mobile phone market.

Exhibit 23.1 **Impact of Technology Adoption on the Fortunes of Nokia in India**

With a good understanding of the Indian market and the launch of India-specific innovations and customisations, Nokia was able to capture up to 72% of the Indian GSM market by the year 2007. Its market survey of the Indian market enabled it understand that a mobile phone was much more than a communication device for Indian consumers. They wanted things like a rough and tough phone that can withstand mishandling of equipment, and features like torch, etc. to be a part of it. Consequently, it came up with an India-specific phone, Nokia 1100.

But the market share of the Finnish telecom major, Nokia, dropped to 53% in 2008 and to 49% in 2009. The major reason cited by industry experts for this downfall was shrinkage in sales of Nokia in top-end smart phones. One reason for this shrinkage is reported to be the non-adaptation of Microsoft's operating system (OS) Windows and relying on Nokia's own Symbian OS in its high-end phones, as compared to the rivals, Samsung and LG, who switched to Microsoft's OS pretty early. Thus, it is reported that Nokia's high-end phones suffered due to strategic decision with respect to the integration of technology.

Similarly, its dominance in below Rs. 4000 mobile phone segment, where it used to have 77% market share, is being significantly challenged by over 20 cheap Chinese brands that are offering more features at lower prices.

Source: Dubey, R. and Sen, S. (2009). Numero Uno's Gambit, *Businessworld,* 21 September 2009, pp. 34-38.

TECHNOLOGY INCORPORATION PROCESS

The technology incorporation broadly consists of two phases—Technology Development and Technology Assimilation. The technology development phase comprises the following three stages:

(a) ***Invention:*** It is the process of creation of a new product or process.
(b) ***Innovation:*** It represents the introduction of the invented product or process into use.
(c) ***Diffusion:*** It involves the spread of the product or process beyond its first use.

The technology assimilation phase represents the adoption of a technology through a systematic step-by-step approach by an organisation for the achievement of its intended objectives. The generic processes of incorporation of any technology in an organisation include the following steps.

- ***Step I: Identification of related technologies in a particular area or domain:*** Organisations need to constantly scan the available technologies related with their industry, which are gaining increasing acceptance in their geographical market as well as in the global context. They need to make an attempt to forecast the likely impact of a technology on the industry structure, competitiveness and profitability.
- ***Step II: Selection of the most appropriate technology:*** Appropriate technology is the one that fulfils the needs of a business organisation in a given business environment. Most advanced or the latest technology may not be the best technology for an organisation.

  Earlier, many companies used to buy IT tools in a hurry to be the first and ahead of their competitors. Not any more. Today they want to know how business processes will be improved by the application of a particular technology. Large corporations are now spending on new IT solutions only if their suppliers demonstrate credible, documented and near-term payoffs for the investment made by the corporations[3].

  An organisation can employ the matrix method to select the most appropriate technology. This matrix has two dimensions: technology and product. The technology dimension describes technologies in terms of their relationships to one another, and the product dimension establishes competitive position. The interaction of these two dimensions provides information that enables a manager to select and implement the most desirable technology option.

  While selecting a technology, organisations must examine the issue of its integration with the existing technologies. Besides, the element of the people's acceptability of the concerned technology must also be given due consideration before zeroing in on the appropriate technology.

  Benefits of Appropriate Technology

  (a) Appropriate technology is the one that can easily integrate with the existing business system or can help connect and integrate the different dimensions and processes of a business organisation. Examples of appropriate technology are: CRM, ERP, etc.
  (b) It helps in easy execution of different business processes.
  (c) It enables consistent coordination between different elements and hierarchical levels of an organisation.

- ***Step III: Procurement of the selected technology:*** While procuring the selected technology, a proper cost-benefit analysis must be done to estimate the additional value that the technology is likely to deliver to the business organisation and its customers. If the associated tangible and intangible benefits are significantly more than the technology cost, then only the organisation should go ahead to procure the technology.

While procuring the concerned technology issues like installation, training of manpower, future upgrades of the technology and after-sale service need to be properly discussed and got incorporated in the sale agreement.

- ***Step IV: Assimilation of the new technology with the existing system:*** In this stage, the standard version of the new technology needs to be customised as per the organisation's requirement.

  Tesco, a leading UK-based retail chain, began its online business in 1996 with limited investment as an extension of its existing business in one of its stores in the UK. After two-and-a-half years of fine-tuning and refining the new business model as a pilot project, Tesco was convinced that there was enough demand for this new business model to justify a more focused approach and larger investment. However, the pilot project highlighted that it would not be financially viable to cover the entire retail operations through the Internet. Thus, Tesco decided to integrate the online mode as an extension of its overall retailing initiatives[4].
- ***Step V: Implementation and exploitation of the new technology for the production of goods and services:*** In this step, the new technology is implemented and integrated into the existing business process. Proper attitudinal and skill upgradation training of the employees need to be undertaken to ensure the cultural acceptability of the technology. The organisation needs to ensure that its employee modify their existing practices and start using the new technology to perform their roles and responsibilities. Thus, this step involves the learning of the new technology and the unlearning of the existing or old technology.

CHALLENGES IN TECHNOLOGY MANAGEMENT

Inappropriate technology can certainly lead to bad management, but appropriate technology on its own cannot ensure the achievement of organisational goals. It must be remembered that technology is only a tool of management, and a good technology cannot be a cure for bad management. It requires significant managerial effort to ensure that the optimum benefits of a technology are delivered to an organisation. A number of methodologies and techniques are employed by organisations to improve and smoothen the integration of technology with business and overcome the challenges associated with technology management. Some major challenges related with technology management are described below.

1. One of the greatest challenges in technology management is the rate at which technology itself is changing. In the present age of knowledge explosion, research in universities and R&D in industries have put technical advancement on a fast track. Consequently, the existing technologies are becoming obsolete very fast. If the organisation has made a significant investment in a given technology not long ago, then its management is likely to be reluctant to introduce a new technology . It may justify continuing with the existing technology, citing the heavy cost incurred on its installation.
2. An organisation may have very valid reasons for not opting a new technology. But, at the same time, if modern technology is not adopted, the organisation's infrastructure will gradually become outdated. Then the organisation would find it difficult to compete effectively and efficiently with those who have new technology.

3. The incorporation of a new technology may result in changes in several organisational units or may change the nature of jobs performed at all levels in the organisation. Such disruption may be resisted by those department members who may have to change the way they do things or may have to part company with the people with whom they have been working for a long time.
4. People with years of service with the organisation, who have got used to work in a particular manner, may resist technology change more resolutely than newer people. As these are relatively senior people in their cadre, their voice negatively affects the organisation-wide adoption of a new technology.

LIMITATIONS OF TECHNOLOGY

(a) Technology is merely a tool. How and to what extent an organisation can make use of this tool determines what the technology will finally deliver to the organisation. As it is said a fool with a tool is still a fool, the acquisition of technology may not guarantee the achievement of business goals and objectives.
(b) Simple addition of technology to automate existing processes may not result in gains. The largest gains from technology result through the optimization of processes, organisational structures and information flows.
(c) The complexity of today's ever-evolving business climate creates a situation where business requires more information and operational synchronisation, which puts additional demand on technology.

SUGGESTIONS FOR MANAGING TECHNOLOGY

The new technology may offer a large number of benefits but much depends on how the people involved use it. Managers can adopt some of the following suggestions for integrating the new technology in their organisations in an effective and efficient manner:

1. Establishing a culture of high trust throughout the organisation or winning over the trust of the affected parties reduces the likely resistance to the new technology.
2. The manner in which the new technology-related decisions are designed and implemented decides the extent of resistance to it. When these decisions are taken through participatory approach, there is a greater likelihood that the new technology will be accepted.
3. While implementing a new technology, the top management needs to maintain open the channels of communication.
4. Training is very essential for building confidence, competence and commitment. Organisations need to ensure proper training of the concerned human resources about the benefits and implementation process of the new technology. With this training, they learn to use the new technology optimally and their doubts, concerns and anxieties about the post-implementation scenario are also taken care of.
5. The employees' concerns about the new technology should be dealt with directly without any delay because concerns can become major grievances if they are allowed to linger.
6. The incorporation of technology should add significant value to the lives of different stakeholders. 'e-Choupal', ITC's high-potential Internet-based intervention in rural India, has already begun to

make a significant contribution towards enhancing farm productivity and rural incomes. But, this increase in income is not at the cost of company's profit. This technology intervention by eliminating procurement-related inefficiencies has created a win-win situation for both the ITC and farmers. Attracted by its immense benefits, e-Choupal has been accepted by the rural population at a surprisingly fast pace with least amount of resistance.

Points to Remember

1. Technology management is a systematic endeavour to manage technological issues in an organisation to create a competitive advantage. It aims at understanding the value and appropriateness of a technology for the organisation.
2. Technology management requires the management to make the following decisions on the following key aspects of technology use: Technology Strategy, Technology Mapping, Technology Road Mapping Technology Project Portfolio.
3. The function of technology management is to analyse and make decisions on the following issues: What are technological requirements and which are most appropriate technologies for an organisation? Whether to acquire a technology or to develop it in-house? When to invest on the development of a technology and when to withdraw? How much to invest for the technological development? How to integrate existing technologies with new technologies? How to manage the change that accompanies the implementation of a new technology? How to develop human resources to enable them make the best use of new technologies?
4. The processes of incorporation of technology in an organisation include the following steps: Step I: Identification of related technologies in a particular area or domain, Step II: Selection of the most appropriate technology, Step III: Procurement of the selected technology, Step IV: Assimilation of the new technology with the existing system, Step V: Implementation and exploitation of technologies for the production of goods and services.
5. The major challenges in technology management are: rate at which the technology itself is changing and resistance to change that comes with new technology.
6. To integrate technology in the organisation in an effective and efficient manner, there is need to: establish a culture of high trust throughout the organisation, adopt a participatory approach, open the channels of communication, provide training to build confidence and competence and directly deal with the employees' concerns.

Review/Discussion Questions

1. What is technology management?
2. What is the role of technology in a business organisation?
3. Which are the factors that affect management of technology?
4. Outline the process to incorporate technology in an organisation.
5. What challenges are associated with management of technology?
6. What suggestions do you recommend for managing technology?

Field Exercises/Class Exercises/Group Projects

1. Students can undertake a group discussion with respect to how technology has changed their lives in the last few years.
2. Students can select different industries to study how the advent of new technologies has transformed those industries over a period of time. They can submit a written assignment and make a formal presentation for the same.
3. Students can visit different organisations, that have introduced new technologies, like CRM or automation, etc. in the recent times, to understand from managers their experiences with respect to the entire process of implementation of new technology, especially the human dimension and the integration issues.

On the Internet

1. Log on to http://csrc.nist.gov/publications/nistpubs/800-30/sp800-30.pdf to learn risk management for Information Technology systems.

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Suggested Reading

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Case Study

Genetically Modified Food: A Boon or Bane for a Country like India?

The population of India doubles every four-five decades but the farm yields are not growing at the same pace, and the gap is widening. As a result, there is a possibility of a humanitarian crisis in the future.

Genetically modified (GM) food crops, with significantly high productivity and disease resistance offer a hope for India to reduce the widening gap between India's population and food production. Advocates of GM foods claim that Bt crops could provide a long-term solution to food problem in India. India has responded to the situation by allowing the introduction of high productivity GM foods. The first of which, 'Bt brinjal', is set for approval.

Other GM crops including rice, tomato, okra, mustard, potato, onion, maize, wheat, tea and banana, currently under development in India, will follow suit and a new era in Indian agriculture would start.

The state-owned labs have been ordered by the government to develop genetically modified fruits, vegetables, cereals and pulses to ensure food security in the future. The penetration of GM varieties for these crops would be much faster because farmers have already experienced an average of over 250 per cent improvement in cotton yield with the introduction of Bt cotton.

But the world over, countries and their population are giving thumbs down to genetically modified food. Many questions about the health and the environmental impacts of these technologies remain unanswered. They are limiting the introduction of genetically modified seeds only in the area of non-food crops. They want to examine and test the likely impacts of such food crops on human population.

Several studies have pointed out the environmental and health risks of GM technology, which range from allergic reactions to infertility. In early January 2009, an independent analysis on Bt brinjal, conducted by France's Committee for Independent Research and Information on Genetic Engineering, concluded that the crop, when consumed, could induce resistance to Kanamycin, a well-known antibiotic. In November 2008, a study sponsored by the Austrian government, also showed that the fertility of rats fed with GM corn decreased over generations. At the same time, Irina Ermakova of the Russian Academy of Sciences showed that GM soya made female rats give birth to severely stunted and abnormal litters.

GM food would represent a multi-billion dollar opportunity for agro-biotech firms. NGOs such as Greenpeace advocate that there is conspiracy between GM crops seed companies and the government. These assumptions were proven true when Monsanto agreed to pay $1.5 million fine after admitting it had directed an Indonesia consulting firm to give a $50,000 bribe to a government official in Indonesia in January 2005 to avoid an environmental impact assessment on its Bt cotton.

India is yet to develop a GM foods policy that will outline the necessary do's and don'ts for the farmers and the industry with respect to genetically modified food crops. Some scientists and experts in India are also pointing at India's unpreparedness to tackle GM crop proliferation as there are shortcomings in the country's regulations. Secondly, Indian regulator for this sector in the form of GEAC (Genetically Engineered Approval Committee) has limited infrastructure to supervise GM crops which require strict monitoring and labelling from farm to fork.

On the other hand, a critical bill to increase crop production and quality, 'The Nursery and New Seed Bill', is still pending in Parliament. The government is yet to draft a drought code, a flood code and a weather code. There is no answer to the growing water crisis. The plan of interlinking the national rivers is pending for consideration for many years. But, the Indian government is exploring answers to the impending food crisis in the domain of GM foods.

Questions for Discussion and Analysis

1. The impact of GM foods on human health and environment is still being debated worldwide. The question is whether it is appropriate to allow the introduction of genetically modified food in India at this time?
2. Is GM food the right option for a country like India? Why so?
3. Should the priority be given to public health or the growth of the biotech seed industry?

Source: Bisserbe, N. (2009). 'The Future of Food', *Businessworld*, 3-9 Feb 2009.

Chapter 24

Knowledge Management and Learning Organisation

Knowledge is experience. Everything else is just information.

—Albert Einstein[1]

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand knowledge management and the different approaches to build a knowledge management system
- comprehend the importance and application of knowledge management
- know how to institute knowledge management
- know how to make knowledge management effective and how to measure its effectiveness
- understand the challenges of knowledge management and the reasons for its failure
- know how to build a learning organisation with a learning culture and what are the benefits of a learning organisation

INTRODUCTION

What the railroad was to the 19th century enterprise, what the assembly line was to the 20th century manufacturing, knowledge is proving to be just that to the 21st century business. Management guru

Peter F. Drucker[2] asserts, 'Knowledge is the only meaningful resource today'. Information and knowledge are playing such a vital role in modern business organisations that the present times are referred to as the 'information age' or 'knowledge economy'. With so many information-based intelligent products available in the market, we are virtually witnessing an information revolution. This knowledge revolution differs from the industrial revolution. The industrial revolution was labour- and capital-intensive, whereas the knowledge revolution is education- and human intelligence-intensive.

Before we discuss in detail the concept of knowledge management, it is vital to understand the nuances or distinctiveness of data, information, knowledge and wisdom. Without this fundamental understanding, it may not be appropriate to discuss the domain of knowledge management.

DATA, INFORMATION, KNOWLEDGE AND WISDOM

In practice, the terms 'information' and 'knowledge' are often used interchangeably by business writers, but they are significantly different. Information evolves from data which represents an abundant and necessary resource. Data is transformed into information when it is organised in a proper manner. Information means understanding the relationships between data. In other words, when a meaning is attributed to data by associating it with other numbers, things and previous contexts it turns into information. Information becomes knowledge when an individual is able to realise and understand the patterns in information and their implications to draw actionable inferences. As an individual attains the ability to assimilate and synthesise this knowledge for a productive purpose, it leads to wisdom. Wisdom arises only when one can understand the eternal truths among the patterns representing knowledge. Pictorially, the data-to-wisdom transformation has been depicted in Figure 24.1.

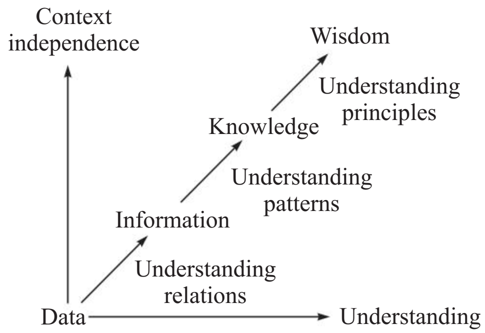

Figure 4.1 Relationship between Data, Information, Knowledge and Wisdom

Source: Gene Bellinger, Durval Castro and Anthony Mills, http://www.systems-thinking.org/dikw/dikw.htm

It must be kept in mind that a collection of data is not necessarily information; a collection of information does not automatically become knowledge; a collection of knowledge is not always wisdom; and the collection of wisdom may not always be truth. This is because the whole (i.e. a collection) represents more than the sum of its parts. For instance, a collection of data for which there is no relation between the pieces of data is not information. Whether data would lead to information also depends on the understanding and knowledge of the interpreter and the associations he/she is able to discern within the collection of data. Therefore, we can draw the following inferences about information, knowledge and wisdom.

- ***Information:*** It describes or defines perspectives, like what, who, when, where, etc.
- ***Knowledge:*** According to Fred Nickols, Executive Director, Strategic Planning and Management, Educational Testing Service, knowledge refers to a person's state of being with respect to some body of information. This state may be of ignorance, awareness, familiarity, understanding, facility, and so on. Knowledge represents information that is put to productive use through development of strategy, practice, method or approach. It helps guide a practitioner how to do a particular thing.

Michael Polanyi[3] categorised knowledge into the following two categories:

(a) ***Explicit knowledge:*** It is referred to as 'formal knowledge', which can be articulated in language and transmitted among individuals.

(b) ***Tacit knowledge:*** It is referred to as 'informal knowledge', or 'personal knowledge' rooted in individual experience. Tacit knowledge is often viewed as the real key to getting things done and creating new values. Therefore, there is an emphasis in a 'learning organisation' on internalisation of information (through experience and action) and generation of new knowledge through managed interaction.

As knowledge is very distinct from information, it requires a different set of concepts and tools. The distinct characteristics of knowledge and information are presented in Table 24.1.

Table 24.1 Distinction between Knowledge and Information

Knowledge	Information
Knowledge is created through understanding and analysis of information.	Information is created through processing of data that is already available.
Knowledge is the output of thinking.	Information is the input for thinking.
Knowledge belongs to individuals and communities.	Information resides in hard and soft form in different media.
Knowledge moves around in communities.	Information is static until accessed.
Knowing is a human process.	Information relates to data and facts.

- ***Wisdom:*** It represents fundamental principles, insights and moral values that are developed on the basis of people's understanding why something should be done or not.

KNOWLEDGE MANAGEMENT

The practice of knowledge management (KM) has been in existence in the past as well. Corporations had some processes to synthesise their experience and integrate it with information acquired from outside sources to create useful knowledge pool for managing organisational operations. But, with the advent of information technology and development of computing power, knowledge management has acquired a very critical role in the growth and survival of business organisations. Experts have defined or interpreted knowledge management in their own ways. Given below are some definitions of knowledge management.

Knowledge management is a systematic endeavour for tapping, consolidating and preserving the knowledge that employees bring and add during their tenure. We can also say that knowledge management is a business process through which firms create and use their institutional or collective knowledge. It includes the following three sub-processes[4]:

- ***Organisational learning:*** The process by which the organisation acquires information and/or knowledge.
- ***Knowledge production:*** The process that transforms raw information into knowledge to be made useful for solving business problems.
- ***Knowledge distribution:*** The process that allows employees to access and use the collective knowledge of their organisation.

Knowledge management represents both the process of knowledge management as well as the system or infrastructure that enables an organisation implement the knowledge management process. As a system, it includes appropriate IT infrastructure (relational databases, computer networks, sophisticated e-mail system and software), incentive schemes, organisational culture, people and teams involved in knowledge management processes and internal rules that govern these processes. Therefore, knowledge management is a technology and a system that transforms raw information (individuals' experiences and data acquired from external sources) into knowledge that is useful to solve business problems.

Andersen Consulting defines knowledge management as the preparation, preservation and exploitation of accumulated business knowledge in a manner that expedites the provision of the right information to the right people at the right time[5].

S K Palekar[6], Senior Vice President, Marketing and Knowledge Management at Eureka Forbes, articulated that 'knowledge management is not just about creating a library or an archive where one has all kinds of information available at the click of a mouse. Instead, it is about ensuring that employees access and use the documented knowledge that is available within the system, to perform better in their day-to-day business dealings along with bringing strategic benefits to the organisation.'

Evolution of Knowledge Management

The discipline of knowledge management has evolved over a period of time. The different phases of its evolution are described below.

- ***Phase I— Prior to 1980:*** At the outset, Drucker and Strassmann introduced the importance of information and explicit knowledge as organisational resources. Subsequently, Senge focused on the cultural and systemic dimensions of managing knowledge in learning organisation. Everett Rogers' work at Stanford about diffusion of innovation and Thomas Allen's research at MIT in information and technology transfer, in the late 1970s, contributed a lot in developing the understanding about how knowledge is produced, used and diffused within organisations[7].

  The importance of managing knowledge in an organised manner got a boost with the spread of computing technology in business organisations. The computer technology that contributed to generation of huge amount of information started to become part of the solution to manage this information. Doug Engelbart's Augment (for 'augmenting human intelligence'), introduced in 1978, was an early hypertext/groupware application capable of interfacing with other applications and systems.

- ***Phase II–1980s:*** By the mid-1980s, the importance of knowledge as a competitive asset was clearly apparent. Rob Acksyn's and Don McCracken's Knowledge Management System (KMS), an open distributed hypermedia tool, was one of the first major tools in this domain. The 1980s witnessed the emergence of knowledge management systems that were developed on the basis of artificial intelligence and expert systems. The concepts, like 'knowledge acquisition,' 'knowledge engineering,' and 'knowledge-base systems' were also coined during this time.

  In the year 1989, a consortium of US companies started the Initiative for Managing Knowledge Assets to provide a technological base for managing knowledge. The term 'knowledge management' entered the managerial practice and literature when knowledge management-related articles started appearing in journals, like *Harvard Business Review*, *Sloan Management Review*, *Organisational Science*, etc. Senge's *The Fifth Discipline* and Sakaiya's *The Knowledge Value Revolution* were among the first books on organisational learning and knowledge management. In 1989, the International Knowledge Management Network (IKMN) was established in Europe.
- ***Phase III—Post 1990s:*** By 1990, leading US, European and Japanese firms had instituted focused knowledge management programmes in their organisations. A good number of management consulting firms also established in-house knowledge management programmes during the 1990s. The most widely read work on knowledge management, *The Knowledge-Creating Company: How Japanese Companies Create the Dynamics of Innovation* by Ikujiro Nonaka and Hirotaka Takeuchi, was published in 1995.

  The Internet also contributed in a big way in spreading awareness about knowledge management during the mid-1990s. In 1994, the International Knowledge Management Network (IKMN) went online and soon the US-based Knowledge Management Forum and other KM-related groups and publications joined it. At present, knowledge management has gained a wide acceptance in business organisations around the world. It is also being viewed as an alternative to failed TQM and business process re-engineering initiatives. Professional organisations working in areas, like benchmarking, risk management and change management, are exploring a relationship of knowledge management to their areas of special expertise.

Constituents of Knowledge Management

The domain of knowledge management has emerged from the cross-disciplinary application of a wide range of disciplines and technologies. The constituents of knowledge management are described below.

- ***Computer-supported collaborative work (groupware):*** Groupware technologies, like Lotus Notes, that enable sharing and collaboration of information are extremely vital to organisational knowledge management. They have contributed so much to the discipline of knowledge management that they have almost become synonymous with it.
- ***Expert systems, artificial intelligence and knowledge base management systems (KBMS):*** The learning from these technologies is directly applicable to the domain of knowledge management.
- ***Management Sciences:*** The fundamental knowledge with respect to organising, retrieval and application of knowledge has been provided by the fundamentals enshrined in the discipline of management.

- ***Cognitive science:*** It has provided insight about how we know and learn and has contributed in improving the tools and techniques for acquiring and disseminating the knowledge.
- ***Library and information science:*** The knowledge of the discipline of library and information science that makes libraries work has provided a key conceptual background for the classification and organisation of knowledge.
- ***Document management:*** The document management technology that enables the accessibility and re-usability of the information content plays a key role in knowledge management activities.
- ***Decision support systems:*** Decision support systems enable managers take effective decisions. Considered a key component of knowledge management, these systems are based on insights from the fields of cognitive sciences, management sciences, computer sciences, operations research and systems engineering.
- ***Semantic networks:*** Semantic networks are now used in mainstream professional applications to represent domain knowledge in an explicit way that can be shared.
- ***Relational and object databases:*** Relational and object-oriented databases, used primarily as tools for managing 'structured' data and 'unstructured' content respectively, help in representing and managing knowledge resources.
- ***Simulation:*** 'Simulation' technology also plays a significant role in advanced knowledge management that enables development of projections for the future.

KNOWLEDGE MANAGEMENT APPROACHES

The domain of 'knowledge management' is multifaceted and can be approached and applied from very different perspectives. Different categorisations of and approaches to knowledge management are described below.

(a) ***Karl-Erik Sveiby[8]'s two 'tracks' of knowledge management:*** It classifies knowledge management into the following two categories:
   - **Management of Information:** It approaches knowledge as an object that can be identified and handled in information systems.
   - **Management of People.** It approaches knowledge as 'a complex set of dynamic skills, know-how, etc., that is constantly changing'.

(b) ***Knowledge Praxis' three-part categorisation:*** Rebecca O. Barclay, Managing Editor, and Philip C. Murray, Editor-in-Chief, *Knowledge Praxis*, have categorised knowledge management according to the following three approaches.
   (i) ***Mechanistic approach to knowledge management:*** This approach is characterised by the application of technology and resources to do more of the same in a better manner. The main requirements of the mechanistic approach are:
      - Better accessibility to information.
      - Networking technology as key solution.
      - Technology and large volume of information to work.

Although enhanced access to corporate intellectual assets is vital, yet there is no guarantee that access itself will have a substantial impact on the business performance. Unless there is leveraging of cumulative experience, the net result may not be that positive, and not much better than what it used to be before the application of knowledge management.

(ii) ***Cultural/behaviouristic approach*:** This approach views the domain of 'knowledge management' as a management issue, and technology is perceived as a tool but not a solution. This approach focuses more on innovation and creativity and aims at creating 'learning organisations'. The assumptions behind this approach are:

- The processes are more important than the technology.
- Organisational culture and behaviour of employees need to be changed to effectively implement knowledge management.
- People are more important and nothing would happen until they accept and make use of the knowledge management system.

The cultural and behavioural factors are usually underestimated. The implementation of knowledge management can become more effective when these factors are taken into consideration.

(iii) ***Systematic approach:*** The systematic approach to knowledge management focuses on the rational analysis of the knowledge problem. Some basic assumptions of this approach are:

- Focus should be on sustainable results, not on the processes or technology.
- There is need to model the different aspects of the organisation's knowledge to transform it into an effective resource.
- Even the cultural issues should also be analysed and tackled systematically.

This approach towards knowledge management has been widely adopted by organisations to solve the problems of today's business.

Importance of Knowledge Management

Knowledge management in its present form is gaining increasing importance in the corporate world. It is playing a key role in enhancing an organisation's ability to deal with its purpose, gain a competitive edge, deliver the results and cope with the change. It enables the members of the organisation to not only deal with their current situation but also effectively envision and create their future. This importance is accorded to knowledge management due to the following reasons:

- ***Knowledge as Critical Asset:*** In the present-day business scenario, access to other resources is no longer limited. Capital flows freely across borders, seeking out companies that need it. Technology is available to organisations that cannot develop it for the right price. Raw material is free to be transported across the globe. Information is available to everyone on the digital highways. The most valuable assets of a 20th century company were its production equipment. But the most valuable assets of a 21st century organisation will be its knowledge workers and their productivity[9].

  Knowledge that a corporation gains from years of cumulative experience in manufacturing, engineering and sales, together with information gathered from outside sources, is a critical resource and often called the intellectual capital[10].

Without knowledge management, every situation in an organisation is responded to by the concerned individuals in a manner that they deem fit. Through knowledge management, organisational issues and concerns are responded to by applying the collective learning of everybody in the organisation about a situation of a similar nature.

- ***Knowledge as Competitive Advantage:*** In the knowledge economy, the learning organisation will have better chances of survival and growth. The ability to learn, create, codify and utilise knowledge faster than the rivals and quicker than the environmental changes will provide organisations with a sustainable competitive advantage[11].

  Therefore,

  KNOWLEDGE = COMPETITIVE EDGE

- ***Knowledge-driven Manufacturing:*** Global competition is gradually killing high-cost and low-quality manufacturers and is bringing forward new organisations those are nimble and knowledge-driven. In order to compete and survive in present times, more and more intelligent human intervention is required to extract the maximum from machines. Hence, manufacturing is becoming increasingly knowledge-driven in all aspects for organisations to be competitive in the present-day business scenario[12].
- ***Increased Amount of Data in Organisation:*** The enterprise data is multiplying at a very fast pace. This calls for an effective management of information to transform it into useful knowledge. 'By some estimates, the average knowledge worker spends about one-third of his/her time just looking for information,' says Ashok Chandra, Sr. Vice President at Verity, a developer of knowledge management products at Sunnyvale, California.
- ***Increased Business Opportunity through Knowledge Management:*** If organisations harness the accumulated knowledge to their full and optimum potential, there can be numerous gains for them in terms of new product development, productivity gains, customer satisfaction, etc.
- ***Retaining Know-how within the Organisation:*** Organisations have understood the fact that they can't stop people from shifting the jobs. But, if they are able to retain the knowledge of their employees within the organisation, they could reduce the extent of damage that is posed by this phenomenon of attrition. Thus, knowledge management makes an attempt to capture the experiences of employees on the projects that any company undertakes.

  The knowledge manager and his associates in KM cell at Amarchand Mangaldas, a law firm in Mumbai, interview different employees once a week about the work done during that week. The aggregated information is fed into an IT support system for later use[13].
- ***Knowledge-based Economy:*** Today's economy runs on knowledge and most companies are working diligently and tirelessly to capitalise on the accumulated knowledge. They are using cross-functional teams, customer- or product-focused business units, quality circles and work groups to capture and spread ideas and knowledge to make their processes more effective and efficient.
- ***Increasing Importance of the People Factor:*** The people who generate, utilise and disseminate information have become an extremely critical resource for business organisations because of the following factors[14]:
  - The significant source of knowledge for an organisation is its people.
  - Individual knowledge is the starting point for organisational knowledge.

- The knowledge pool of each individual cannot be replicated.
- Only people can spread knowledge resources across the company.
- It is only people who can convert knowledge into efficient action.
- With the migration of people from one organisation to another, this vital asset of the organisation also moves along with them.

Objectives of Knowledge Management

Knowledge management aims to accomplish the following objectives.

- Sustained individual and business performance through ongoing learning, unlearning and adaptation.
- Enabling achievement of breakthrough business performance through the synergy of people, processes and technology.
- Focusing on the management of change, uncertainty and complexity.
- Giving importance to human sense-making processes underlying decisions, choices and performance.
- Enabling 'smart minds' use 'smart technologies' to leverage strategic opportunities and challenges.
- Using the knowledge component in the strategy, policy and practice at all levels of the organisation.
- Establishing a connection between the organisation's intellectual assets and its business results.
- Enhancing creativity and creating new knowledge value.
- Leveraging existing knowledge for achieving substantial savings, significant improvements in human performance and competitive advantage.

How to Build a Knowledge Management System

In general, there are two significantly different approaches towards application of knowledge management in the industry[15]:

(a) ***Bottom-up, Decentralized KM System:*** The bottom up, decentralised knowledge management system puts more emphasis on people, and the management is involved only in loose coordination of the knowledge management process. As in this system, knowledge is built by the users themselves, it is likely to be more relevant and easy to use. In this system, insufficient information originates from outside the organisation. This system generally makes available the firm's existing wisdom, but it might not be ideal for generating new ideas that lead to breakthroughs.

(b) ***Top-down, Centralised KM System:*** The top-down, centralised system is built and managed from the top. It is generally based on advanced information technology. In this system, connections among people are established through large central knowledge centres, which synthesise and distribute the organisation's knowledge.

The main advantage of centralised systems is that they provide the opportunity for visionary breakthroughs. But their disadvantage is that they are very expensive and their benefits are very hard to measure. Norms, incentives and corporate culture must be explicitly built to encourage people to use the centralised knowledge management system while decentralised systems tend to evolve automatically from the very philosophy of the system.

Process of Implementing Knowledge Management in an Organisation

The implementation of knowledge management in an organisation is a systematic process that includes the following steps.

- ***Step I:*** Identifying intellectual assets within an organisation and mapping them.
- ***Step II:*** Instituting groupware and intranet technology for provision of access to information.
- ***Step III:*** Generating new knowledge within the organisation for attaining the competitive advantage for the organisation.
- ***Step IV:*** Making the corporate information accessible to employees and other stakeholders and enabling the sharing of best practices.

INSTITUTING KNOWLEDGE MANAGEMENT

Even the simplest of the technologies can generate great results when they are implemented by competent, motivated and committed human resources. On the other hand, the greatest of technologies may produce below-average or even poor results if they are applied by incompetent or de-motivated human resources. Therefore, collection of data and its transformation into information is of little use if it is not translated into meaningful decisions and actions for sustained performance.

Thus, knowledge management is not as easy as it might appear to be. The employees too busy with their daily operational work may not automatically become a part of the knowledge management system. Organisations need to develop strategies to convince their employees to actively contribute to the generation of knowledge and then utilise it for the enhanced productivity. Some strategies to institute knowledge management in an organisation are described below[16].

(a) ***Launching a Portal:*** In order to collect, integrate and share knowledge, a company can launch an internal portal. As people from different departments and divisions could upload information, this portal integrates various departments to enable organisation-wide exchange of knowledge.

(b) ***Making it User-friendly:*** Companies should employ such knowledge management tools that are easy to use. If the employees do not possess computers, then the company can link their mobile phones to the system. The employees can send SMSes to dedicated numbers for getting any information. This information could be provided through SMS or callback on their cellphones.

(c) ***Providing Incentives to Employees to Collect and Use Information:*** The employees might not always upload or download information from the knowledge management system because of their high-pressured and demanding work. Companies can institute reward points or launch contests to encourage the employees to use the knowledge management system and bring in necessary changes in their attitude and behaviour towards collecting and disseminating the desired information from the knowledge network.

For instance, the moment an employee of Eureka Forbes used to log on to the portal, he/she would receive around 20 per cent points. There was five per cent weightage for contribution of ideas into the portal and five per cent weightage for utilisation of ideas. Once the employees accumulate the stipulated points, they become entitled for cash awards.

(d) ***Communities of Practice:*** Communities of practice are groups of people who are informally bound together by shared expertise and passion for a joint enterprise. People in communities of practice share their experiences and knowledge in free-flowing, creative ways that foster new approaches to problems. Some communities meet regularly while others are connected primarily by e-mail networks[17].

As the communities of practice can complement the existing structures and radically galvanise knowledge sharing and learning, the companies can facilitate the creation of such communities to encourage their employees to share professional experiences and expertise with one another.

Application of Knowledge Management

Knowledge management can be beneficial for an organisation from multiple perspectives. Some applications of knowledge management are discussed below[18]:

- ***KM as a Motivational Tool:*** Accumulated knowledge can be used as a tool to motivate the human resources. For example, Eureka Forbes created a literature, 'Eurobiographies', consisting of success stories of the sales force to motivate the sales force to achieve higher targets.

  Every morning, the company used to send a motivational SMS to its sales force along with a question related to a success story elaborated in 'Eurobiographies'. The question could be: What did the Star Performer 'A' do with the performance rewards? The options would range from booking a house to buying a car to spending money on other necessities. As a reward was instituted to be given to a team of ten people who may have answered the question right, people were encouraged to look into 'Eurobiographies' loaded at the company portal. In evening the company would send the right answer to its employees. These questions and answers motivated some of the employees to excel and perform better.
- ***KM as a Sales Tool:*** The knowledge created through knowledge management system can be utilised to sell more to the customers. The documentation of experiences and strategies with respect to selling the products can be uploaded on the company portal. All employees could derive relevant lessons from these experiences to sell effectively to the potential or existing customers.

  For instance, Eureka Forbes' scientists constantly study the water contamination levels at different places. One of their findings about higher water contamination in certain areas in Mumbai related to the floods that hit the city. This finding was utilised by the sales team to sell more effectively in those localities where there was an opportunity to sell.
- ***Enhanced Employee Productivity:*** Organisations that deployed knowledge management observed improvement in employee efficiencies in a short span of time.
- ***Improved Decision-making:*** CRM and other knowledge management tools not only gather information but also create 'views' that can help a manager select exactly the information he or she needs at a glance in order to make faster, intelligent decisions[19].
- ***Exchange of Knowledge among the Employees:*** The responses and solutions suggested by the employees can be uploaded on the company portal where they can be accessed by other employees.

Knowledge Worker Productivity

The concept of 'knowledge worker' was first provided by Peter Drucker in his 1959 book '*The Landmarks of Tomorrow*'. Drucker was among the first to predict that the success of business and economy would shift from the ability of firms to make products to their ability to generate and use knowledge. Drucker pointed out that the productivity of knowledge/service workers is the most important challenge for the management in the 21st century because it has either remained steady or declined in some cases. Drucker[20] (1999) describes the following six major factors determining knowledge worker productivity:

1. To enhance knowledge worker productivity, we must ask the question: 'What is the task?'
2. The responsibility for productivity should be imposed on individual knowledge workers. They need to manage themselves, so they should be provided with adequate autonomy.
3. Continuing innovation has to be an integral part of the job profile and responsibility of knowledge workers.
4. Knowledge work requires continuous learning as well as continuous teaching on the part of the knowledge worker.
5. The productivity of the knowledge worker is not just a matter of the quantity of output but also its quality.
6. For better productivity of the knowledge worker, it is essential that he/she is both seen and treated as an 'asset', not as a 'cost', so that he/she feels encouraged to work for the organisation in preference to all other opportunities.

Role of IT in Knowledge Management

Becoming a knowledge-based company in the present-day business scenario largely depends on having an IT infrastructure that organises knowledge and makes it easy to use and share[21]. Information technology plays the following roles in the knowledge management system[22].

- It acts as an enabler of the knowledge management system.
- It can help organisations leverage their knowledge.
- The Internet and e-mail have made it possible for professionals to draw on the latest thinking of their peers no matter where they are located.

How to Make Knowledge Management Effective

Knowledge management can be made effective in the organisational setting by implementing the following measures and strategies.

1. ***Integration:*** Organisations need to create an integration of human and information systems in order to leverage knowledge for multifarious purposes.
2. ***Creating thinking forums:*** Thinking transforms information into insights and insights into solutions and useful knowledge. Therefore, organisations need to encourage their people to think and not just create heaps of information in databases.
3. ***Integration with Day-to-Day Operations:*** The system should focus on the creation and dissemination of knowledge that is important for the employees as well as the organisation. This can

be achieved by integrating the knowledge management system with the day-to-day operations of the organisation and natural flow of work.

4. ***Creating a Community:*** Establishment of an effective system for sharing of information among the employees helps create a community of employees who want to be in touch with each other and share information with one another.
5. ***Empowering the User Community:*** To leverage knowledge, focus needs to be on the community of users, not the knowledge itself. If an organisation wants to strengthen its knowledge management system, it should provide freedom to the community to decide what they want to share and how to share it.
6. ***Feeling of Belongingness and Sense of Ownership:*** The information system should preferably use the community's terms to organise the knowledge. This helps in creating a sense of belongingness among the user community.
7. ***Manage the Change:*** A culture change should be approached as a community issue, and the community should be used to bring in the desired change.
8. ***Using Unstructured Data:*** The traditional knowledge management targeted only the 'structured data'—the information developed in relational databases. But a large amount of 'unstructured data' is also created in organisations. Organising the unstructured data may not be that easy, but is a very useful source of information.

CHALLENGES OF KNOWLEDGE MANAGEMENT AND REASONS FOR ITS FAILURE

'Despite aggressive implementations of CRM software for years, CRM is less than 10 per cent implemented across the Fortune 1000 organisations', says Peter McCullage[23], Vice President of CRM Strategy for Siebel Systems in San Mateo, California. If this was the scenario with respect to knowledge management in the leading 1000 companies of the world in 2002, then one can imagine the state of affairs with regard to knowledge management in the other organisations throughout the world.

Knowledge management is a cultural, technological, infrastructural and operational issue. Therefore, mere creation of an information network does not automatically result in a vibrant knowledge management tool. There are a large number of challenges affecting its successful implementation. Some of them are listed below[24].

- Knowledge management cannot be established by the organisation merely by putting up a large amount of information on its company portal.
- The information system should be created in accordance with the information that is needed by the professionals.
- If a group of people don't have sufficient contact and don't already share knowledge, the implementation of information technology is not likely to create it. It can only be achieved by connecting people so that they can think together and utilise the insights and solutions that are created as a result of thinking.
- Information technology is a tool and enabler and cannot automatically lead to institution of knowledge management. Leveraging knowledge is very hard to achieve. It needs a systemic approach, understanding of needs and development of a strategy.

- Institution of knowledge management usually requires changing the organisational culture. But most knowledge management efforts focus on information systems and treat cultural issues as secondary implementation issues. This approach affects the effective utilisation of information networks and leveraging of knowledge by the employees.
- Inculcating a desire to share knowledge presents a challenge to traditional companies.
- Virtual teams need to build a relationship, often through face-to-face meetings, before they can effectively collaborate electronically[25].
- Difficulty in changing people's work habits and encouraging them to take out time to create and share really good and useful information is a significant challenge for the application of knowledge management in the organisational context.

Madan Mohan Rao, a leading knowledge management consultant at Quality Assurance Institute (QAI), who has authored a book, *KM Tools and Techniques*, attributes the following reasons for the failure of knowledge management in delivering the desired results: lack of a common IT platform, inertia among the workforce in switching to new knowledge management tools, inadequate training on how to use some of these tools, lack of maintenance and upgradation of the tools, and lack of alignment between the tools and workflow.

Measures of Effectiveness of Knowledge Management System

Companies can create specific measures to know whether their knowledge management systems are delivering the desired results or not. These measures can be divided into four major categories[26]:

- ***Technology Measures:*** These measures evaluate whether the right technology is put in place or not. The technology effectiveness can be analysed by measuring the number of emails, number of database queries that are being put by the employees, amount of traffic on the company portal, duration of portal sessions, frequency of usage of online forums, etc.
- ***Process Measures:*** The effectiveness of the knowledge management system can be measured by analysing whether the organisation has adopted the right processes or not. It can be achieved by evaluating the number of knowledge asset queries, number of knowledge assets used, degree of ease in accessing the knowledge assets, number of ideas submitted by the employees, number of best practices created, steps to distribute knowledge, etc.

  The effectiveness of the process of knowledge management system can also be measured in terms of the degree and extent of collaboration with suppliers and distributors, direct channels of communication with customers, real-time interactions with clients, response times to queries, etc.
- ***People Measures:*** By measuring the number of people who are using the knowledge management system and the extent of their usage, an organisation can determine the effectiveness of its knowledge management system.
- ***Business Measures:*** These measures enable the assessment of the effectiveness of the knowledge management system on the basis of its impact on costs, market share, customer satisfaction, customer loyalty, profitable partnerships, conversion of knowledge into patents and licences, improved productivity, risk management, etc.

The discussion on knowledge management logically takes us to the concept of learning organisation. But, any fruitful discussion on learning organisation may not be possible without understanding the fundamental aspects, like individual learning and organisational learning.

INDIVIDUAL LEARNING

In the present-day knowledge economy, the success of any organisation is founded on the knowledge of its people. The learning by the individual is a prerequisite to organisational learning because organisations can learn through individuals associated with them. At the same time, it is equally important for individuals to continuously learn throughout their career to remain relevant in the workplace. So, it is in the interest of the organisation as well as the individual that learning becomes an integral part of organisational functioning.

An individual's learning in an organisational context comprises activities, like training, provision of opportunities to enhance professional experience and formal education. But it must be understood that the individual learning does not automatically translate into the organisational learning, nor the sum total of individual learnings is equivalent to the organisational learning.

ORGANISATIONAL LEARNING

Moving from individual to organisational learning involves a non-linear transformation because when an individual learns something, it is available for his/her immediate use; but organisations have to create, capture, transfer, and mobilise knowledge before it can be used by the different stakeholders. Thus, the key aspect of organisational learning is the interaction that takes place among individuals. Lucilius rightly stated in the 1st century BC that 'Knowledge is not knowledge until someone else knows that one knows.'

Organisational learning is a social process, involving interactions among many individuals. It requires a culture that promotes learning and adaptation as part of everyday working practices. In organisational learning, adaptation of an idea must be rewarded along with its initial creation.

Need for Organisational Learning

The following characteristics of the present-day business world make it necessary for companies to ensure continuous learning at organisation and individual levels.

(a) The pace and magnitude of change that is currently being faced by organisations is difficult to manage, if the skills of the employees are not upgraded on a continuous basis.

(b) A learning organisation actively promotes, facilitates and rewards collective learning because the optimum level of organisational learning is not achieved automatically as a by-product of day-to-day work.

(c) The level of performance and improvement, needed today in the business sector, requires lots of learning.

(d) Learning to do something new is enormously rewarding and personally satisfying. It does not create a possibility of achieving extraordinary performance together with satisfaction and fulfilment for the individuals involved. It can also contribute to the retention of employees.

Methods to Institute Organisational Learning

- ***Step I— Capturing individual learning:*** Capturing individual learning is the first step to make it useful for an organisation. Different methods for capturing the knowledge and experience of individuals are:
  - (a) Publications
  - (b) Activity reports
  - (c) Lessons learned exercises
  - (d) Interviews
  - (e) Presentations.
- ***Step II— Storage of Captured Knowledge:*** The acquired knowledge should then be stored in repositories, databases or libraries in a manner that it will be available when and as needed.
- ***Step III— Organising the Knowledge Content:*** Knowledge needs to be organised and presented to the potential users in a manner that they can understand it and find it suitable as a solution for their needs. Then only the users would be willing to accept and internalise the knowledge presented to them.
- ***Step IV— Transferring Knowledge:*** The organisation has to ensure that the acquired knowledge does not merely lie unused in databases and libraries, rather it is provided or made accessible to the people for whom it is likely to add value. This can be done through the following measures.
  - (a) Browser-activated search engines to help people find what they are looking for.
  - (b) Communication and network infrastructure to retrieve the stored knowledge.
  - (c) Instituting communities of practice or consulting experts to share the tacit knowledge.

LEARNING ORGANISATION

A learning organisation is the one that actively creates, captures, transfers and mobilises knowledge to enable it to adapt and respond to change. It is a term given to a company that facilitates the learning of its members and continuously transforms itself and its context[27].

Garvin[28] defined a learning organisation as 'an organisation skilled at creating, acquiring and transferring knowledge, and at modifying its behaviour to reflect new knowledge and insights.'

Senge[29] who popularised the concept of learning organisation defines it as 'organisations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to learn together.' Organisational learning can be further classified as: 'survival learning' or 'adaptive learning' and 'generative learning'. For a learning organisation, 'survival or adaptive learning' is important and necessary but not enough, it must be accompanied by 'generative learning'— the learning that enhances our capacity to create.

Characteristics of a Learning Organisation

A learning organisation displays the following characteristics[30].

- It encourages people to learn to produce the results they desire and attain personal mastery.

- It nurtures creative and innovative patterns of collective learning.
- It makes an attempt to develop fresh organisational capabilities.

Peter Senge identified the following five disciplines that converge to create a learning organisation:

- ***Systems thinking:*** Systemic thinking is generally oriented towards long term and addresses the whole rather than focusing on parts. It examines the interrelationship between parts and sees organisation as a dynamic process. When viewed from the systems perspective, a good number of short-term improvements often involve very significant long-term costs. For example, reduction in research and design budget can bring cost savings, but can severely damage the long-term viability of an organisation.
- ***Personal mastery:*** Personal mastery goes much beyond merely attaining a certain level of competence, skills and spiritual growth. It does not refer to some sort of definiteness, or something that one possesses, but it is a continuous lifelong learning process. People with a high level of personal mastery are deeply self-confident, but at the same time they are very much aware of their incompetence and the areas of growth. Only for those who do not see the 'journey is the reward'.
- ***Mental models:*** The discipline of mental models includes unearthing the assumptions and generalisations or pictures of the world that one holds in one's mind and then subjecting them to rigorous scrutiny.
- ***Building shared vision:*** Many leaders have visions, but not all of them get translated into shared visions that galvanise an entire organisation. Shared vision involves creating shared 'pictures of the future' that foster genuine commitment and enrolment in all the stakeholders of an organisation rather than mere compliance. A genuine and shared vision fosters a sense of long term, encourages experimentation and innovation. It makes people excel and learn, not because they are told to, but because they want to. Leaders do not need to dictate a vision. Vision spreads and gets reinforced when people have clarity, enthusiasm and commitment.
- ***Team learning:*** Team learning is a process of aligning and developing the capability of a team to create the results its members truly desire. When people learn together and act together, there are not only good results for the organisation but people also grow more rapidly than they would have done otherwise. Team learning starts when the team members suspend their assumptions and enter into a genuine 'thinking together' by undertaking an open and transparent dialogue (To the Greeks, *dia-logos* meant a free-flowing) among them.

Creating a Learning Organisation

Managers facilitate learning by sharing and aligning the individual learning with the vision of the organisation. In order to attain that, they create learning communities and then sustain them through establishment of a strong learning oriented culture. Madhukar Shukla, Professor (Organisational Behaviour), XLRI, and a pioneer of organisational learning in India, identified the following requirements to create a learning organisation:

- Developing capability for scanning information both from within the organisation as well as from external sources.

- Creating capability for self-reflection and problem-solving to interpret the new information and redefine business knowledge.
- Developing capability to disseminate new knowledge throughout the organisation to enable collective learning.
- Creating capability to act and experiment so that the organisation can practise the new learning.

Advantages of being a Learning Organisation

In the present times when businesses are being affected by the fast-paced changes in their environment, learning organisations offer the following advantages:

- A learning organisation creates an environment where the leadership in the organisation can be decentralised and the overall capacity of all the people to work productively towards common goals can be enhanced.
- In situations of accelerating change, only the organisations that are flexible, adaptive and productive will excel. Such organisations can only be created if the employees at all levels have a commitment for learning. The focus on learning contributes to the competitiveness of an organisation and enables it to continuously align with the environment.
- Organisations can continually expand their capacity to create their future by being a learning organisation because real learning enables individuals and organisations to re-create themselves. Thus, learning organisations enable a certain level of innovation in their functioning.
- When organisations transcend linear thinking and grasp system thinking (a discipline of a learning organisation), there is the possibility of transforming a vision into reality.
- When dialogue is joined with systems thinking, there is a greater possibility of dealing with complexity, and of focusing on deep-seated structural issues.
- The focus on the learning of individuals and organisation enhances the people orientation of the organisation and results in enhanced commitment and motivation, and improved retention of employees.
- It increases the possibility of the faster introduction and acceptance of change within an organisation by reducing resistance towards it.
- Since the core competence of the majority of organisations is capability of their individuals, it is in the interest of the organisation to constantly augment the collective learning of its people, nurture innovative patterns of thinking, continually learn how to learn together and overcome their learning disabilities. Mrityunja Athreya[31], a celebrated management guru, rightly says: 'Not only will the global market reward learning handsomely; it will severely punish the lack of learning.'
- Learning empowers the employees because they consistently acquire and share knowledge and apply this learning to decision-making, which in turn improves the organisational performance.
- Pooling of collective intelligence and stimulating of creative thought has a great potential to improve the performance of the individual and the organisation.
- It creates a mutual dependency among employees as their learning depends on one another. This gradually breaks the barriers and psychological resistance that unnecessarily come in the way of sharing of ideas and information.

ISSUES AND CHALLENGES IN CREATING A LEARNING ORGANISATION

Although there exists a sound rationale behind the concept of learning organisation, yet there are huge challenges when it comes to its application in the real business world. Some of the challenges associated with the establishment of a learning organisation are described below.

(a) The concern of organisations is to identify how the interventions can be made to turn them into 'learning organisations'. The people who have to implement the concept of learning organisation do not have the disposition or theoretical tools to follow it through and also have psychological and social barriers with respect to this approach.

(b) There are very few organisations that come close to the combination of characteristics that are associated with the learning organisation. Within a capitalist system, very few companies can turn wholehearted into the cultivation of learning among their members. Even those who are looking for the long-term growth of their enterprise, may focus on enhancing brand recognition and status, developing intellectual capital and delivering product innovation, and may not focus on the development of their human resources.

(c) The companies' priorities are overwhelmingly financial and the profit targets are too high and that too are for very short time horizons. Such conditions are not much conducive to building a learning organisation. For capitalist organisations, where the bottom line is profit, the concept of learning organisation in its totality is too idealistic.

(d) Explicit knowledge is teachable and independent, but competitors can imitate it easily. On the other hand, tacit knowledge carried by an individual is intangible, less teachable, more complex and more difficult to detach from the person who created it. For creating a learning organisation, this tacit knowledge has to be converted into organisational knowledge for enabling the organisation to realise its commercial potential, which is easier said than done.

(e) The process of exploring one's performance, personality and fundamental aims in life is a daunting task for most people and requires considerable support and motivation to carry it out.

LEARNING CULTURE

Learning culture refers to an organisational culture that facilitates sharing of ideas across the organisation. Jack Welch emphasised the creation of learning culture at GE because being a diverse conglomeration, it was critical for GE to learn from different businesses and then quickly transform that learning into action. Welch liked to say that GE's uniqueness was based on its being a multi-business enterprise with a learning culture that made its diversity a competitive advantage rather than a handicap. Organisations can create learning culture by adopting the following practices[32].

(a) ***Encouraging Adoption of Best Practices of other Organisations:*** GE adapted new product introduction techniques from Chrysler and Canon, effective sourcing techniques from GM and Toyota, and quality initiatives from Motorola and Ford. Welch said, 'I'm very proud of the fact that we didn't invent the quality programme. Motorola invented it. And we've taken it. That's a badge of honour. That's not something bad. It's a great thing to do.' GE was also able to be effective in the Chinese market by adopting the best practices from IBM, Johnson & Johnson, Xerox and others.

(b) ***Laying Strong Emphasis on Sharing:*** Sharing and not just implementing best practices should become a key parameter for evaluation of performance of employees. Steve Kerr at GE said, ‘Sometimes leaders have said to me, “I have a best practice and Jack Welch is coming to visit. Help me move the best practice around the company. I don’t want to get caught with it alone when Jack arrives.” The point is that the manager understands there will be no reward for having a good idea, only in sharing it with others.’

The learning culture at GE has become a natural part of the way people think. It’s now a part of the GE way of doing business. When David Calhoun, Head of GE Locomotives, wanted to improve the way the business delivered parts to the customers, he assigned a team to visit various GE locales to learn about their experiences. Says Calhoun[33], ‘One of the hardest things is sitting in your own closet and dreaming up a new idea by yourself. Now we have a licence to go out and learn and implement. Now you have so many ideas, you have to narrow it down to what you want.’

Points to Remember

1. Knowledge management (KM) is a process through which firms create and use their institutional or collective knowledge by transforming raw information (individuals’ experiences and data acquired from external sources) into knowledge that is useful in solving business problems. The knowledge management process includes three subprocesses: organisational learning, knowledge production and knowledge distribution.
2. KM includes: IT infrastructure, incentive schemes, organisational culture, people and teams, and internal rules that govern these processes.
3. KM is not just about creating an e-library. It is about ensuring that the employees access and use the knowledge, that is available within the system, to perform better in their day-to-day business dealings for bringing strategic benefits to the organisation.
4. Information is created through processing of data. Knowledge is created through understanding and analysis of information. Information is the input for thinking and knowledge is the output of thinking.
5. Knowledge management serves as a motivational tool and sales tool; it enhances employee productivity, encourages participation and improves decision-making.
6. The two approaches for the application of KM are: bottom-up, decentralised approach and top-down, centralised approach.
7. Strategies to institute KM in an organisation are: launching a portal, making it user-friendly, providing incentives to employees to collect and use information and establishing communities of practice.
8. IT acts as an enabler of KM system and helps organisations leverage knowledge of their peers no matter where they are located.
9. KM can be made effective in the organisational setting by integration of human and information systems, creating thinking forums, integration of KM with operations, creating a community and empowering it and generating a feeling of belongingness and sense of ownership, managing the change and using unstructured data.

10. The challenges affecting the successful implementation of KM are: the information system should be in accordance with information needs of professionals; it requires a high degree of employee contact and desire to share; IT is a tool and enabler and cannot automatically lead to institution of KM; leveraging knowledge is hard to achieve; and a systemic approach is needed.
11. Institution of KM usually requires changing organisational culture, inculcating a desire to share knowledge, changing people's work habits and encouraging them to take out time to create and share really good and useful information.
12. Measures of effectiveness of the KM system are: technology measures, process measures, people measures and business measures.
13. A learning organisation is the one that is able to adapt and respond to change. It encourages people to learn to produce the results they desire, nurtures creative and innovative patterns of collective learning, and makes an attempt to develop fresh organisational capabilities.
14. The requirements to create a learning organisation are: developing capability for scanning information, self-reflection and problem-solving to interpret new information and redefine business knowledge, developing capability to disseminate new knowledge throughout the organisation to enable collective learning.
15. Organisations can create learning culture by encouraging adoption of best practices of other organisations, and laying strong emphasis on sharing the benefits of a learning organisation.
16. Employees can apply new learning to decision-making to improve organisational performance. Pooling of collective intelligence and stimulating of creative thought has great potential to improve the performance of the individual and the organisation. It creates a mutual dependency among the employees as their learning depends on one another.

Review/Discussion Questions

1. What is knowledge management and what is the importance of managing the knowledge in an organisational setting?
2. What is the difference between knowledge and information?
3. What are the different applications of knowledge management?
4. What are the different approaches to build a knowledge management system?
5. How can the management implement knowledge management within the organisation?
6. What is the role of IT in knowledge management?
7. How can the management make knowledge management effective and how can it measure its effectiveness?
8. What challenges are associated with the successful implementation of knowledge management in an organisation or what are the reasons for its failure?
9. How can the management build a learning organisation with a learning culture?
10. What are the benefits of a learning organisation?

Field Exercises/Class Exercises/Group Projects

1. What can be done to introduce knowledge management system in your institute? What are the areas that should be focused upon for creating learning opportunities? What could be the corresponding benefits of such an endeavour?
2. Visit the office of some large organisation in the vicinity of the institute to identify how it is managing its knowledge.
3. Identify some learning organisations from the corporate information on the Internet or company websites and analyse their different learning practices.

On the Internet

1. Visit http://www.slideshare.net/lritzel/knowledge-management-simple-exercise to undertake an exercise on knowledge management.
2. Visit http://www.tlainc.com/articl140.htm or http://www.ejisdc.org/ojs2/index.php/ejisdc/article/viewFile/388/250 to understand the applicability of knowledge management in the academic world.
3. Log on to http://www.elementk.com/c/document_library/get_file?uuid=c9ce5712-0896-49d2-8ff2-4225a95a2cc4&groupId=2814201 to develop an understanding of practical considerations for the selection and implementation of an e-learning platform or learning management systems in an organisation.

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Case Study

Creating a Learning Organisation

Know-how Consultancy Services Pvt. Ltd. was doing a brisk business in Mumbai in the domain of offering training and consultancy services to companies in the financial sector. They had a team of senior trainers who had been recruited from premier business schools and had an extensive work experience in the range of about ten years.

Due to good delivery and feedback, *Know-how Consultancy* started getting training assignments from other metros, like New Delhi, Kolkata and Chennai. As it became unviable to serve the clients in these metros from the Mumbai office, the obvious choice was to recruit additional competent trainers and open branch offices in these metros. Soon, the branch offices were opened and they were provided with standardised training modules so that similar type of service was provided across India.

The branch offices started generating adequate business and future appeared to be quite bright for Know-how Consultancy. But suddenly the company started getting response from the market that the quality of training offered by branch offices was not equivalent to the one provided by the trainers in the Mumbai office.

This feedback was taken seriously and a series of interventions were proposed to standardise the services of branch offices according to the Mumbai office norms. Training programmes for the trainers of branch offices were undertaken by the trainers of the Mumbai office to share learning and bring uniformity in standards. Besides, all the trainers were interconnected through an extensive Knowledge Management System so that they can share knowledge among themselves. The members were encouraged to be virtually in touch with their counterparts in the company and share their experiences and learnings.

The company believed that these measures would enable it attain the intended objectives. But the feedback from the clients still reflected a great degree of variation in the delivery and performance of different trainers. The situation became very serious when some clients stated that they would prefer getting training services from particular trainers only.

The managing director of Know-how Consultancy called an emergency meeting to discuss the issue because despite their attempts that they believed to be rational and logical they could not remove the inconsistency in their training services.

Questions for Discussion and Analysis

1. What reasons do you foresee behind the lack of consistency across the offices of the company?
2. Why the interventions of trainers' training and the setting up of Knowledge Management System failed to deliver the desired results?
3. What can be done further to ensure the institution of a learning organisation that is actively undertaking the knowledge management of the desired quality for all its clients uniformly?

Chapter 25

National Cultures and Management Practices—Comparative Analysis of American, Japanese, Chinese and Indian Management

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- understand what is the relationship between national culture and management practices
- explore the characteristics and limitations of American management
- comprehend the characteristics and limitations of Japanese management
- know the characteristics of Chinese management
- understand the characteristics and limitations of Indian management

INTRODUCTION

A great deal of controversy has been around over the issue whether the management is culture-bound or not. As a result, there emerged two distinct schools of thought with respect to the applicability of management practices in a global context. One approach believed that management principles are universal. The dominance of American management theory in the overall management literature led to the belief that a definition of good manager in the US will also hold true in other countries, and the effective US management practices will be effective anywhere. But this view is now being displaced with the second approach that advocates the need for variation in the manner in which management is practised from one country/region to another.

Because of the differences in managerial attitudes, values and behaviours across national cultures, it is now being globally accepted that there is no one best way to manage a business. Although globalisation is leading to standardisation across the countries, yet the management practices cannot be universal. Differences in national cultures require for customisation or localisation of management practices[1]. For instance, the quality circles, which are widely used and effective in Japan, have not delivered the same results in a large number of organisations in India or the US in spite of the best of the efforts.

Harold Koontz[2], in his model of comparative management, concluded that management as science (organised knowledge) has universal application, but the practice of management is an art and as such must be adapted to the situation.

NATIONAL CULTURE AND MANAGEMENT PRACTICE

National culture represents the values, beliefs and assumptions learned in early childhood that distinguish one group of people from another [Hofstede[3] 1991]. It implies that one way of acting or one set of outcomes is preferable to another in a particular cultural context. As a result, employees' understanding of work, their approach to it, and the way in which they expect to be treated is dependent on their cultural background, and it varies from one culture to another.

Now there are ample empirical evidences that the management practices like strategic decision-making [Schneider and DeMeyer[4] 1991], leadership style [Dorfman and Howell[5] 1988], and human resource management [Luthans, Welsh and Rosenkrantz[6]1993] differ by national culture, and the differences in the application of management practices with national cultures affect the workplace performance.

A cross-cultural study[7], involving 64 German managers and 77 Indian managers employed in manufacturing companies, found that management practices like hiring, performance appraisals, pay or compensation and training and development are impacted by cultural differences. A research study, that analysed financial performance outcomes for organisations in eighteen countries on three continents, found that organisations whose management practises a better fit with the national culture have higher financial performance than those organisations whose fit is not as good[8]. When management practices are inconsistent with the national culture, employees are likely to feel dissatisfied, distracted, uncomfortable, and uncommitted. Therefore, multinational enterprises need to understand the national cultures of the countries in which they operate and adapt their management practices accordingly.

The Centre for Economic Performance carried out a large research project[9] (with McKinsey & Company) to measure management practices in more than 4,000 manufacturing firms across Europe, the US and Asia. The study indicates that differences in management practices account for a significant proportion (10–30%) of differences in productivity between firms and between countries. But the performance differences between companies in the same country were found to be far larger than the cross-country variation. For example, the best 35% of firms in China and India perform better than the average European firm.

Therefore, understanding the characteristics of different national cultures and their impact on the people working in different environments becomes important to adapt different management models. The subsequent section makes an attempt to outline the key elements of the national cultures of some leading economies of the world and presents a brief description of the application of select management practices in these leading industrialised countries.

AMERICAN MANAGEMENT PRACTICES

The American management system is characterised by the following practices:

- ***Long-term strategic planning:*** American organisations generally develop long-term strategic plans for three to five-year cycles.
- ***Top-down approach:*** Traditionally, the management and the communication patterns within an organisation are to a great extent top-down, with considerable emphasis given to written communication.
- ***Professionally managed:*** In the US, only 2% of the firms are family-owned with the eldest son chosen as CEO.
- ***Decision-making:*** In American organisations, the decision-making power and the responsibility is vested only in certain people. As a result, decision has to be sold to others with different perceptions after it has been made. Therefore, the decision-making is quite fast, but its implementation is time-consuming and requires compromises with those holding different viewpoints[10].
- ***Individualism in Leadership:*** Whether in the form of government or in the nature of organisation, Americans favour strong individual leadership. The individual at the top is empowered to take decisions and inspire people for their successful implementation. Organisations in the United States emphasise individual responsibility, with efforts to clarify and make explicit who is responsible for what.

  Leaders are expected to be strong, determined and directive decision-makers even if this requires face-to-face confrontation with those who may disagree. This emphasis on individualism may hinder cooperation.
- ***Creativity and Innovation:*** American companies lay a strong emphasis on creativity and innovation. Whenever there is saturation in the market, organisations try to develop a more value-added product through creativity and innovation.
- ***Identification with their profession:*** A large number of managers in America do not make special efforts to create a commonly shared organisation culture because the American human resources have a closer identification with their profession than with a particular company. One reason for this is that the workforce often comprises people with different backgrounds, values and heritages. As a result, the self-interest of people is often placed before the interest of the organisation.
- ***Employee turnover:*** Many US companies have a high employee turnover rate because the employees expect rapid advancement, and if it does not happen within a company, they may change companies. As professionals often identify more with their profession than with their company,

job-hopping is generally common. This relatively shorter duration of employment with any one company lowers the loyalty towards the company.

- ***Consultants as change agents:*** In America it is quite common to use outside consultants with a behavioural science orientation for organisational development.
- ***Performance Appraisal:*** In American companies, the focus of performance appraisal is on short-term results and individual contributions to the company objectives. Companies appraise the performance of new employees comparatively soon after they are hired. If the performance is not as per the expectations, employment may be terminated. Even for veteran employees, performance is evaluated at least once a year. Promotions or increases in remuneration are often based on individual performance and the differences in remuneration may be substantial, especially at the top management levels. This focus on maximising individual results can negatively affect the group performance.
- ***High reliance on monetary reward:*** Monetary rewards are key incentives to drive superior performance. This is reflected in the huge salaries and stock options that are paid to the CEOs in America even during the struggling phase of the company.
- ***Training and development:*** Progressive companies provide continuous development, but training is often undertaken with hesitation because of the cost and the concern that the trained person may switch to another company. Employees are often trained in specialised functions, which results in a rather narrow career path within the company.
- ***Job insecurity:*** In many US companies, employees feel that they may be laid off during economic hard times. This naturally contributes to job insecurity.

Limitations of American Management

Some limitations associated with American management practices are as follows:

1. ***Dysfunctional Internal Competition:*** The American reward system is based on individual performance. This leads to creation of strong internal competition, which can actually be dysfunctional in long term. This is one of the root causes of the recent problems in the American banking sector and a lot of other companies[11].
2. ***Breaking-up Teams Constantly.*** American companies constantly move their people around for giving people new experiences. This actually results in breaking up teams.
3. ***Short-termism:*** Short-termism with respect to stock prices, quarterly earnings and other facets of business is deeply entrenched in different management practices in America. This short-termism can lead to value destruction while managers believe that they're creating it[12].

JAPANESE MANAGEMENT PRACTICES

Japan's phenomenal success in increasing productivity is often attributed to its managerial practices which are significantly different from American management practices. Japanese managerial practices and the accompanying quality revolution have greatly helped the Japanese companies to successfully challenge the western competition in a wide range of industries[13]. The characteristics of Japanese management have been described below.

- ***Long-term Orientation:*** The Japanese, in general, have a longer-term orientation in planning than the US managers. One reason for this is that in Japan, banks are the primary providers of capital, not the capital markets, which expect good news every quarter.
- ***Strategic approach— 'Meikiki' (foresight with discernment):*** In Japanese organisations the top management lays down an overall 'vision' that establishes corporate objectives. But within the overall vision, individual business units are delegated the task of devising and executing the strategies demanded by the market. The forecasts are not expected to be accurate and everybody anticipates effective correction of the consequent errors.
- ***'Ringi' process of decision-making:*** Generally, several levels of management are involved in making a decision in Japanese organisations, but the final authority for making a decision rests with the top management. The 'Ringi-Sho', a proposal document prepared by a staff member, is circulated among various managers before it goes to the top management for formal approval. This helps in understanding and analysing the problems from different perspectives and developing various alternate solutions before the final decision is made. Therefore, in this process, people share decision power and responsibility. It also discourages the tendency to blame others for an incorrect decision.

  If the top management does not agree to a recommendation, it is returned to subordinates for further study, rather than being outrightly rejected. This decision-making process appears to be time-consuming, but after a consensus is reached, the implementation of the plan is rather swift.
- ***Organisation structure:*** There is a de-emphasis on formal authority, which promotes informality and egalitarianism in the organisation structure.
- ***Organisation culture:*** In Japanese companies, there is a common organisational culture and philosophy. A high value is placed on unity and harmony within the organisation, and there is a competitive spirit towards other businesses. Common values and a team spirit among employees facilitate cooperation.
- ***Organisational change:*** The organisational change is always introduced by an employee of the company in such a manner that does not affect harmony among those affected by the change. The greatest strength of Japanese companies lies in their ability to learn. They are strong at change management.
- ***Kaizen (continuous improvement):*** The Japanese management is based on the management philosophy that everything can be improved and if it is not improved, then the organisation is creating muda (waste). Japanese organisations are highly focused on cost-effectiveness through elimination of wastage on a consistent basis.
- ***Market share orientation:*** Japanese organisations have a sustained drive for the largest possible market penetration through high levels of investment, innovation and ingenuity. For example, Toyota introduced 18 new and reworked models in 1996-97. Some of the models went into production merely fourteen and half months after the approval of design. Japanese companies have a high level of collaboration with suppliers and customers for improvements in existing products and for the development of new products for serving the customers in an effective and efficient manner.
- ***Paternalistic leadership:*** Japanese managers show great concern for the welfare of their subordinates and are willing to do the same work that their subordinates are doing in order to create

an environment of esprit de corps. They play the role of an integrator in the group. In return, the employees are expected to subordinate their self-interest to that of the group and the organisational interest. Although managers may not be very directive, yet influence is exerted on the subordinates through the peer pressure.

- ***People orientation:*** The Japanese practices are based on collaborative, idealistic, people-based management that aims at long-term pay-offs. Japanese companies strongly believe that production depends on people, not just on machines. Therefore, there is a lot of empowerment of people and self-managed teams, which leads to creation of unselfish, motivated and well-trained workforce.
- ***Promotions and career path:*** In Japan, people are generally hired out of school and then promotions are rather slow. Still, employees develop a strong identification with the company, because the company takes care of them, and employees repay with their loyalty. Promotions are usually based on a combination of seniority, merit and educational background. The differences in pay increases accompanying promotions are very small and rewards are essentially based on group and company performance rather than on individual contributions.
- ***Training and development:*** Japanese companies invest significantly in the training and development of their employees. The practice of job rotation is employed throughout the working life of the employees so as to expose them to many different business functions and develop a broad career path for them.
- ***Lifetime employment:*** Japanese companies make every effort to ensure a stable employment for permanent employees until the retirement age (around 55). During economic slowdown, companies usually dismiss part-time employees and rather than laying off permanent employees, who are often transferred to organisational units that need additional help. But the practice of life-long employment is gradually diminishing because it is very costly and results in a top-heavy organisational structure.
- ***Performance evaluation:*** The performance of employees is very infrequently evaluated. It may take ten years before a formal performance evaluation is made for an employee. Before that the progress is monitored on an informal basis. Promotions are linked to the effective long-term performance and decision capability of the person.
- ***Blending of personal and organisational life:*** Close personal relationships are nurtured among the employees not only by working together on common tasks, but also by meeting and associating outside the work environment. This results in convergence of organisational and private life.
- ***Communication patterns:*** In order to maintain workplace harmony, Japanese managers avoid face-to-face confrontation and some of the things are purposely left ambiguous. Japanese managers take a great deal of time communicating with their subordinates. This puts a lot of emphasis on face-to-face contact rather than memos and circulars. As a result, there is lots of bottom-up communication in Japanese organisations.
- ***Management ethics based on Confucian principles:*** Marc J. Dollinger[14], Professor at Indiana University, USA proposed that Japanese management ethics are based on Confucian traditions. Inconsistencies and dysfunctions in Japanese ethical and managerial behaviour can be attributed to contradictions in Confucius' writings and inconsistencies between the Confucian code and modern realities.

Limitations of Japanese Management

1. Because of the consensus approach to decision-making, the emphasis is on collective responsibility and accountability. It can result in a problem that no one feels individually responsible for the decision because individual responsibilities are implied rather than being explicitly defined.
2. Sometimes it takes too long to make a decision that the company misses strategic opportunities.
3. As the individual ability is ignored in favour of management by consensus, sometimes the individual creative talent is not put to good use.
4. Sometimes Japanese organisations lack the optimum balance between process and results because they focus too much on the process and the results are somewhat ignored. In an organisation, some departments, like quality, should focus on process, but others, like marketing, need to be focused on results.
5. The de-emphasis on formal authority promotes a degree of ambiguity in the organisation structure.

In the post-90s scenario, when the American economy grew significantly and Japan faced the crisis of stagnation and recession, the cult of Japanese management gradually started losing its importance. Yang[15] found that Japanese companies are facing some problems with traditional Japanese management methods. Many Japanese managers are concerned that their traditional methods such as consensus management, the ringi decision-making system, seniority promotions, lifetime employment, and Japanese-style long-range planning, inhibit their companies' ability to adapt to rapid technological change and global competition.

CHINESE MANAGEMENT PRACTICES

The characteristics of Chinese management practices are described as follows:

- ***Planning and Decision-making:*** In China most of the businesses are state-owned; therefore five-year plan is prepared at the top (the State Planning Commission) while more detailed plans are made at lower levels. Major decisions are made by people at the top, but many people are involved in operational decisions. Lower-level managers have very little authority to make decisions. As decision-making is under the direct control of the state, through the central planning bureau, there is lack of flexibility in the implementation of decisions. There is a realisation of the need to change, and attempts have been made to delegate more authority to lower levels through the 'factory responsibility system'. But the managers at the top of the hierarchy resist giving up some of their privileges[16].
- ***Organising:*** As most of businesses in China are state-owned, there is prevalence of a bureaucratic organisation structure. But, within the formal bureaucratic structure, the relationships among people are rather informal. There are strong organisational cultures in Chinese businesses, but the degree of identification of employees with the business varies greatly.
- ***Staffing:*** Chinese staffing practices are somewhat similar to those in Japan. The employees are hired from school and are expected to stay with the business for a long time. Jobs are secure; it implies lifetime employment, but employees are promoted slowly through the ranks with regular salary increases. There is difficulty of integrating organisational and personal goals because the achievement of organisational objectives has little bearing on individual benefits. There is lack of

dedication and loyalty to company as well as to the profession, but the job changes are not frequent in China because it is very difficult to change jobs among state-owned organisations.

- ***Performance appraisal:*** Performance reviews are usually done once a year in China, which is certainly more often than in Japan. Promotions are supposed to be based primarily on performance, education and potential ability, but family ties and good relations with the superior greatly influence advancement within an organisation.
- ***Training & Development:*** In the past, training programmes were offered only to the chosen few in China, but now training is being provided for more managers through educational television and professional night schools.
- ***Leading:*** The leadership style in China is generally quite directive, and it is expected that the leaders' commands are to be obeyed. There is an emphasis on harmony rather than confrontation. Because of cultural homogeneity, the leading in China is aided by common values.
- ***Communication:*** The communication pattern in Chinese organisations is primarily top-down across the hierarchical levels.
- ***Control:*** Chinese control practices are a mixture of US and Japanese managerial practices. The focus of the control exercised primarily by group leaders is on the group as well as on the individual employee. A direct confrontation is avoided while exercising the control, and there is a tendency to let the persons responsible for poor performance save their face.

MANAGEMENT PRACTICES IN INDIA

Following are the characteristics of management practices currently employed in Indian business organisations.

- ***Blend of Western and Eastern philosophy:*** Most of the currently applied management concepts in India have been borrowed from the West. Western, especially the American managerial concepts, like Taylor's scientific management or Drucker's management by objective, have been increasingly applied (fully or partly) by the Indian corporate sector. Even the Indian education system in schools, institutes and universities has been formulated on the pattern of Western education. The Indian management system is the amalgamation of the Western concepts and the Indian value system.
- ***Duality:*** On the basis of a study of over 40 organisations in India (Virmani & Guptan[17], 1991), it was observed that there exists a peculiar dualism in the management system of India. This dualism is because of the distinct gap between the professed policies and the actual practices followed in Indian organisations. This gap is on account of the conflict which is caused by the imposition of alien Western systems on resident Indian practices and expectations.

  This dualism exists in almost all aspects of management, starting from corporate planning, recruitment, promotion, transfers to the financial system and marketing aspects.
- ***Closer integration between ownership and management:*** The majority of promoters of Indian business organisations are closely involved in the day-to-day management of their organisations. Unlike the West, there is no clear divide between the ownership and management of even large companies that are listed and actively traded on stock exchanges.

- ***Emphasis on the personality of the top leader in the organisation:*** The policies and social structures in Indian business organisations are still built around the personalities of their leaders. On other words, leaders build traditions and practices in the organisation in accordance with their personality[18].
- ***Expectation of subordinates towards paternalism:*** Employees in India perceive a sense of security and belongingness in the parental attitude of their superiors and colleagues. They expect the superiors to act as more of a big brother or coach. The subordinates in India prefer paternalistic leadership style with single, identifiable source of power. The ambiguity with respect to succession can lead to lobbying and division of the organisation into factions and fragmented groups. This has been evident in the corporate battles about ownership and control in the leading organisations of India, like Reliance, Bajaj, etc.

Limitations of Indian Management Practices

1. ***No connect with the corporate HQ:*** Indian workers often feel isolated and separated from the corporate headquarters. Harmony can be achieved in Indian organisations when due respect is given to the familiality, seniority, age and open door communication.
2. ***Emphasis on short-term profitability:*** The majority of Indian business organisations sacrifice long-term institution building in favour of short-term profitability.
3. ***Attraction for big houses:*** There is a preference in India for working with well-known companies and market leaders. People definitely want to work for a big-name company. Small companies and outsourcers are opted only if there is no change of entering into a big company[19].

There is need for the following practices to make the Indian management system much more effective:

(a) ***Succession planning:*** This would avoid unnecessary lobbying and fragmentation of the organisation. There should be longer tenure for the top management with internal promotions and appropriate career and succession plan to enable the employee retention and ensure employee motivation for better performance.

(b) ***Internal democratisation:*** The Indian employees give high importance to opportunities for participation in decisions affecting their personal as well as professional lives. For them the process is as important as the outcome. So, the management should ensure optimum participation of employees in the decision-making.

(c) ***Career Planing for employees:*** A strong system of career planning within the organisation is needed to train, develop and motivate the employees for future executive placements. Creating a career path and making it evidently clear to the employee right from the start can enable the employee retention.

(d) The focus of the annual appraisal system needs to shift merely from rewarding and punishing of the employees to an instrument for identifying the inner strengths and weaknesses of the employees for future development and placement.

(e) ***Distinction between ownership and its management:*** Some business families that do not possess adequate managerial capacity need to gradually hand over the management of their companies to professionally trained managers.

Indian managements need to modify the alien principles, practices and tools before implementing them in their organisations to suit Indian conditions. They need to pilot test their application in smaller units before going ahead with organisation-wide application.

It pays to encourage employees to share their ideas and insight and participate in upward communication because the customer-facing employees have valuable insights into the customer experience and products. The employees are generally not forthcoming to share this valuable knowledge with the management on their own.

CONCLUSION

There are lots of variations across different managerial cultures as discussed above. While one culture cannot simply adopt another culture, there is a great deal we can learn from one another. In a research funded by the Advanced Institute of Management Research, the Anglo German Foundation, the Economic and Social Research Council and the Kauffman Foundation, Nicholas Bloom from Stanford University and John Van Reenen from the London School of Economics found that US firms typically have better management practices and productivity than their European counterparts[20]. Alfred Chandler and David Landes, the Harvard business historians, claimed that poor management practices held back European companies. Therefore, it is of utmost importance to not only identify and implement the right management practices but also find the right match between national culture and management practices.

It must be remembered that although there is homogeneity in a national culture, yet there exist no single country-specific formula of management. Different companies can be managed quite differently within the same country. For instance, there are significant differences between the management approaches of the Tatas and Ambanis although they operate in the same national culture of India.

Points to Remember

1. There is need for variation in the manner in which management is practised from one country/region to another.
2. National culture represents the values, beliefs and assumptions learned in early childhood that distinguish one group of people from another [Hofstede[3] 1991].
3. Empirical evidences show that management practices, like strategic decision-making, leadership style and human resource management, differ with national culture, and the differences in application of management practices affect the workplace performance.
4. Understanding the characteristics of different national cultures and their impact on the people working in different environments becomes important to adapt different management models.
5. American management practices are: long-term strategic planning, top-down approach, individualism in leadership, focus on creativity and innovation, identification with their profession, short-termism, frequent performance appraisal, dysfunctional internal competition, high reliance on monetary reward, consultants as change agents, job insecurity and high employee turnover.
6. Japanese management practices are: long-term orientation, ‘Ringi’ process of decision-making, de-emphasis on formal authority; common organisational culture with high value placed on unity and harmony within the organisation, kaizen (continuous improvement); market share orientation; paternalis-

tic leadership; people orientation; slow promotions, employees' strong identification with the company which takes good care of them; stable employment for permanent employees until the retirement age; infrequent evaluation of employees' performance; blending of personal and organisational life; and ethics based on Confucian principles.

7. Limitations of Japanese management: due to emphasis on collective responsibility and accountability, no one feels individually responsible for the decision; sometimes it takes a long time to make a decision that strategic opportunities are lost; individual ability is ignored in favour of management by consensus; sometimes Japanese organisations lack the optimum balance between process and results, de-emphasis on formal authority promotes a degree of ambiguity in organisation structure.
8. Chinese management practices are**:** five-year planning; major decisions made at the top; many people involved in operational decisions; prevalence of bureaucratic organisation structure; relationships among people are informal, strong organisational cultures; employees are hired from school and are expected to stay with the business for a long time; jobs are secure, but employees are promoted slowly with regular salary increases; lack of dedication and loyalty to company as well as the profession; job changes are not frequent, leadership style is generally quite directive; top-down communication patterns.
9. Management practices in India are: blend of Western and Eastern philosophy; distinct gap between the professed policies and the actual practices; closer integration between ownership and management; emphasis on the personality of the top leader; expectation of subordinates towards paternalism.
10. Limitations of Indian management practices are: Indian workers often feel isolated and separated from corporate headquarters; emphasis on short-term profitability; preference for working with well-known companies and market leaders.
11. The following practices can make the Indian management system much more effective: succession planning, internal democratisation, strong system of career planning within the organisation, shifting focus of the appraisal system from rewarding and punishing to identifying the inner strengths and weaknesses of employees for future development and placement, distinction between ownership and management, need to modify the alien principles before implementation, and encouraging employees to share ideas and insights and participate in upward communication.

Review/Discussion Questions

1. Is management culture specific or not? Justify your answer with suitable examples.
2. How should MNCs and expats deal with cross-cultural issues?
3. Can organisational culture be different from national culture in which it exists? Justify your response with suitable examples.
4. Outline the advantages and limitations that are associated with American management practices.
5. Outline the advantages and limitations that are associated with Japanese management practices.
6. Outline the advantages and limitations that are associated with Indian management practices.
7. Compare and contrast American and Japanese management practices.
8. Compare and contrast Indian management practices with Japanese and American management practices.

Field Exercises/Class Exercises/Group Projects

1. Students can be assigned a task to interview the top management representatives of small, medium and large Indian enterprises to understand the dominant management practices prevalent in their organisation and develop profiles of respective organisation cultures.
2. Students can visit the corporate headquarters of some organisations that have entered into a joint venture or effected an acquisition to understand different cultural issues faced by them.
3. Students can download from the Internet the dominant characteristics of the cultures of the leading economic nations/regions of the world.
4. Students can interview certain Japanese, Chinese, American, German and English expats in India to understand their national cultural values and the culture prevalent within their business organisations.

On the Internet

1. Log on to http://www.jise.appstate.edu/Issues/11/111.pdf to understand the Cross-cultural Virtual Teamwork Experience: An Example with Mexican and American MBA Team Members

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Case Study

Daimler-Chrysler Merger—A Cross-Cultural Perspective

Although the merger of two of the world’s leading car manufacturers—Diamler-Benz of Germany and Chrysler Corp. of USA— in the year 1998 was presented as ‘merger of equals’, yet the reality was something very different from that. Even Schrempp, CEO of Diamler-Benz, never truly believed it to be ‘merger of equals’. In an interview given to the *Financial Times* in 2000, he said, ‘We had to go a roundabout way, but it had to be done for psychological reasons. If I had gone and said Chrysler would be a division, everybody on their side would have said, ‘There is no way we’ll do a deal.’ But it’s precisely what I wanted to do.’ This confession earned Schrempp and his company outrage in the American press.

This merger, which was named as ‘the biggest industrial merger of all time’ by *The Wall Street Journal* was expected to result in great synergies across the Atlantic, as both the organisations could contribute a lot to one another to emerge as world’s leading automobile company. But, it finally culminated on a sad note with Diamler Chrysler selling Chrysler to private equity fund Cerberus in May 2007. Chrysler, which was acquired by Daimler Benz in 1998 for 36 bn USD, was sold for approximately 5.5 bn Euro. The demerger would be among the biggest cashburns in living German management history. Cultural issues were cited as one of the major reasons behind this mega-failure. Auto analyst, Maryann Keller noted that the culture of these two companies are they are oil and water.

The differences between German and American management styles can be clearly understood from the facts cited in Table 25.1.

Table 25.1 Different Management Styles of Daimler and Chrysler

	German Management Style	American Management Style
Emphasis	Methodical decision-making	Creativity
Values	Respect for authority, bureaucratic precision and centralised decision-making	Empowerment, greatly egalitarian relationship across hierarchies
Approach	Attention even to trivial matters for standardisation	Adaptability
Focus	One of the leanest and nimblest car companies	Epitome of German quality and engineering
Approach towards compensation	Germans are by nature against too many disparities in compensation.	There are huge disparities in compensations.
Communication Patterns	Used to lengthy reports and extended sessions for discussions	Preferred short meetings with minimum paper work
Planning	Germans planned ahead for almost 10 years on virtually everything	Chrysler only planned ahead for four months on many issues

It was not that the managements of the two companies were not aware in advance about the challenges in integrating the two organisations with very distinct organisation cultures and German and American management styles. Therefore, they took a good number of steps, described below, to avoid the cultural clash:

(a) Jurgen Schrempp of Daimler-Benz and Robert Eaton of Chrysler Corporation decided to jointly lead the merged organisation.

(b) Both the organisations were allowed to maintain their existing cultures.

(c) Product categories were divided among the two with Daimler manufacturing for luxury seeking market, whereas Chrysler manufacturing cars and trucks for mass market.

(d) Board of Daimler Chrysler consisted of executives from both companies

Despite the efforts to reduce differences, Americans always felt that they have been acquired by the Germans. In the US some shareholders – Jewish in particular – were upset that an American automaker was being taken over by a company that played such an active part in the German war effort half a century earlier. The German managers were aware that the cultural differences play a major role in determining the merger's success or failure more than anything else. So, in order not to appear as invaders, arrogant and ruthless, they did nothing with Chrysler for two years. During this time Chrysler loss market share, and had management problems that saw the defection of all the top Americans executives involved in the merger, including CEO Eaton— either retired, left, or were fired. Key engineers also left because of power struggle. And now when Chrysler failed to deliver the Germans stepped in. Dieter Zetsche, a German, replaced the American head in 1999, two years after the merger. In addition to that, the positions that were left vacant with the departure of unhappy Americans from Chrysler were also largely filled with German expats. These interventions were perceived as ruthless by Americans.

With these changes, the evident had to happen because Germans and Americans, having very different managerial styles, were functioning with one another on day-to-day basis. For instance, Americans at the same level were

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paid higher salaries than German peers. Sometimes the American subordinates, who were posted at Germany, were earning much more than the German superiors. The American subordinate felt inferior to report to a boss who was earning less than him.

The morale among the American employees was at its lowest, causing anxiety and low productivity. A joke made the rounds in Detroit: 'How do you pronounce Daimler Chrysler? Daimler—the Chrysler is silent.* The decline of profitability and the fall of stock price have been attributed to a multitude of issues: supply of highly competitive new models by other manufacturers, weakening of American economy, decision-making processes under the new organisation, and the cultural barriers which made the operations less efficient.

Questions for Discussion and Analysis:

1. Why does the Daimler-Chrysler merger failed to realise the synergies and objectives that were expected from the merger?
2. How should the cross-cultural issues be addressed to make the merger a success?

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*Mucha, 'Why Chrysler is smiling again', *Business*, 5(10), 2004.