

## UNIT I

### LESSON

# 1

## NATURE OF MANAGEMENT AND SOCIAL RESPONSIBILITIES OF MANAGEMENT

### LESSON OUTLINE

- Introduction
- Meaning of Management
- Nature of Management
  - Management as Science
  - Management as Art
  - Management as Profession
  - Professionalisation of Management in India
- Function of Management
- Social Responsibilities of Business

### LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Explain the announcing of management
- ❖ Understand the nature of management
- ❖ Identify and describe the functions of management
- ❖ Understand the Social Responsibilities of Business.
- ❖ Aware of the interests of various stack holders in the business.

### INTRODUCTION

Take a close look at the society around you. You would find the existence of several organizations. To mention a few, the business organizations that produce goods or services, hospitals, religious and social institutions like charities, schools, colleges and universities. All these organizations exist to achieve pre-determined objectives. They affect our lives in many ways. Though there are vast differences in their functioning and approaches, they all strive to achieve certain objectives. It must also be noted that organizations cannot achieve the objectives effortlessly. They are achieved through systematic effort. Several activities have to be performed in a cohesive way. In the absence of systematic and cohesive performance of the activities to achieve the objectives, it is no wonder that the resources of organizations would simply remain as resources. As such it is the function of the management to facilitate the performance of activities such that the accomplishment of the objectives becomes possible.

### MEANING OF MANAGEMENT

Management is understood in different ways by different people. Economists regard it as a factor of production. Sociologists see it was a class or group of persons while practitioners of management treat it as a process. For our understanding, management may be viewed as what a manager does in a formal organization to achieve the objectives. It has been called by Mary Parker Follet: “the art of getting things done through people”. This definition throws light on the fact that managers achieve organizational goals by enabling others to perform rather than performing the tasks themselves.

Management, in fact, encompasses a wide variety of activities that no one single definition can capture all the facets of management, given its dynamic nature. That is why, it is often said that there are as many definitions of management as there are authors in the field. However, the definition given by James A.F. Stoner covers all the important facets of management. According to him:

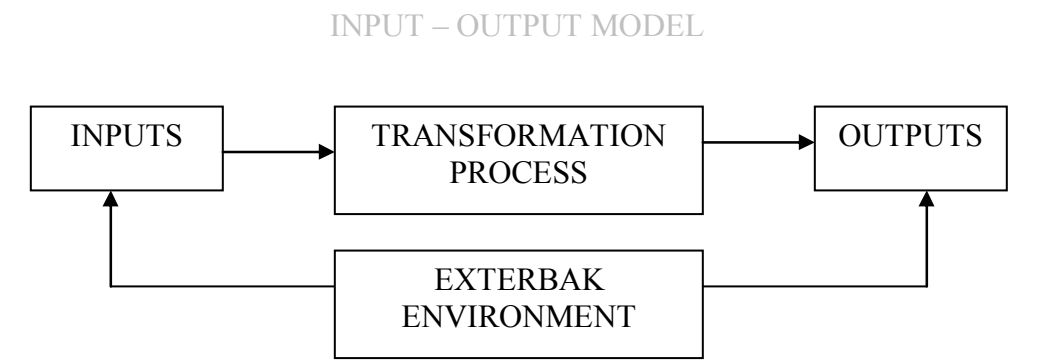
“Management is the process of planning, organizing, leading and controlling the efforts of organization members and of using all other organizational resources to achieve stated organizational goals”.

*The above definition suggests:*

- ❖ Management is a continuous process;
- ❖ Several inter elected activities have to be performed by managers irrespective of their levels to achieve the desired goals;
- ❖ Managers use the resources of the organization, both physical as well as human, to achieve the goals;
- ❖ Management aims at achieving the organisation’s goals by ensuring effective use of resources.

It is evident that the emphasis is on achieving the objectives by using the inputs like material, machinery, money and the services of men. These inputs are drawn from the environment in which the organization exists. Whether an organization is engaged in business or non-business, the various inputs are judiciously used to produce the outputs. This process which involves the conversion of inputs into outputs is common to all organizations and is shown in figure 1.1

Figure – 1.1



Depending on the nature of business or activity that a firm is engaged in, the output of the firm may be a physical product or service. Since a business organization is an economic entity, the justification for its existence lies in producing goods and services that satisfy the needs of the people. As could be seen in the figure, the organization draws several inputs from the environment, converts them into products or services and sends them back to the environment. Environment here means the larger system, i.e. the society in which the firm exists. Therefore, it goes without saying that how effectively the goods and services are produced is a matter of concern for any society, given the scarcity of resources. Effective management plays a crucial role in this context.

**ACTIVITY - A**

Write the meaning of management in your own words.

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## NATURE OF MANAGEMENT

The practice of management is as old as human civilization. In fact, much of the progress of mankind over the centuries may be attributed to the effective management of resources. The irrigation systems, existence of public utilities, the construction of various monuments like Taj Mahal, and the Egyptian Pyramids of the bygone era amply demonstrate the practice of management in the olden days also. The study of management in a systematic way as a distinct body of knowledge is only of recent origin. That is why, management is often described as “oldest of the arts and youngest of the sciences”. Thus, the practice of management is not new. It was been practiced for thousands of years. But the science part of it ‘the systematic body of knowledge’ is, no doubt, a phenomenon of the present century.

## MANAGEMENT AS SCIENCE

To gain a correct perspective as to what management is, let us examine the exact nature of management – whether it is a science or an art. An understanding, therefore, of the exact nature of science as well as art may help in resolving the problem to a larger extent. Any branch of knowledge to be considered a science, (like the ones we have – physics, chemistry, engineering, etc.) should fulfil the following conditions:

- ❖ the existence of a systematic body of knowledge encompassing a wide array of principles;
- ❖ the principles have to be evolved on the basis of constant enquiry and examination;
- ❖ the principles must explain a phenomenon by establishing cause-effect relationship;
- ❖ the principles have to be amenable for verification, in that they must be universally applicable.

Locked at from this angle, management as a discipline fulfils the above criterion.

## MANAGEMENT AS AN ART

Art refers to the ‘know-how’ – the ways of doing things – to accomplish a desired result. The focus is on the skill with which the activities are performed. As the saying goes ‘practice makes a man perfect’, constant practice of the theoretical concepts (knowledge base) contributes for the formation and sharpening of the skills. Therefore, what is required is the right blend of the theory and practice. In a way, the attributes of science and art are the two sides of a coin. Medicine, engineering, accountancy and the like require skills on the part of the practitioners and can only be acquired through practice. Management is no exception. As an university gold medalist in surgery may not necessarily turn out to be a good surgeon, similarly a management graduate from the best of the institutes may not necessarily be very effective in practice. In both the cases, the application of the knowledge acquired through formal education, requires ingenuity, creativity on the part of the practitioner. Correct understanding of the variables of the situation calls for pragmatism and resourcefulness.

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

## MANAGEMENT AS A PROFESSION

These are the days where we are hearing a lot about professional managers and their contribution to the economic development of the nation. Therefore, it is appropriate to know the other dimension of management – whether it is a profession. McFarland gives the following characteristics of a profession:

- ❖ existence of an organized and systematic body of knowledge.
- ❖ formalized methods of acquiring knowledge and skills;
- ❖ existence of an apex level body with professionalisation as its goal;
- ❖ existence of an ethical code to regulate the behaviour of the members of the profession;
- ❖ charging of fees based on service; and
- ❖ a concern for social responsibilities.

A closer examination of management as a profession reveals that unlike medicine or law, management has to go a long way to have a universally acceptable norms of behaviour. There is no uniform code of conduct that governs the behaviour of managers. The apex level body, All India Management Association (AIMA) provides only guidelines and does not have any controlling power over the erring members. Managers also differ widely in respect of their concern for the ethics and values of the society in which they function. Many a time, in their obsession with profit, the societal interests are either neglected or compromised. However, as in the case of other professions, it is implied that managers are expected to set an example in doing good to the society. While making decisions, they should be conscious of the impact of their decisions on the society. The larger interests of the society must be given top priority rather than short-term temptations. After all, given the enormous resources they have at their command, the expectation that managers should address themselves to the problems of society is not unnatural.

It must, however, be remembered that unlike the professions like engineering, medicine, law, accountancy, etc., the entry to management positions is not restricted to individuals with a special degree. In other words, one need not necessarily possess M.B.A or any other management degree or diploma to practice management. To quote Peter Drucker, “no greater damage could be done to an economy or to any society than to attempt to professionalise management by licensing managers, for instance, or by limiting access to management to people with a special academic degree”.

## PROFESSIONALISATION OF MANAGEMENT IN INDIA

In the last few years, management as a profession has gained a firm footing in India. The awareness about the contributions of professional managers has been increasing. Consequently, there has been a manifold increase in the number of institutes offering MBA and related diploma courses resulting in a phenomenal increase in the number of students seeking admission into the management programmes. Interestingly, the awareness of the society of the importance of professional education for the management of various sectors also is growing. For instance, the specialized programmes to cater to the specific needs of the sectors like, Hotel and Tourism Industry, Transport, Health care, Foreign trade, etc.

*The following factors seem to be mainly responsible for the growing demand for professional managers:*

- ❖ The liberalisation policies pursued by the government opened up new vistas for the Indian organizations;
- ❖ As a consequence, competition has increased in all the sectors of India economy, forcing the firms to be efficient;

- ❖ Private industrial houses which were indifferent before, have fully realized the need for professional managers. While the promoters in many cases still reserve the policy formulation for themselves, the day-to-day managerial activities are entrusted to the professional managers.
- ❖ Public sector undertakings are also, of late, forced to perform, if the number of memorandum of understandings (MOUs) signed by the managements of PSUs and the concerned ministries of the Government is any indication. As a result, qualified managers are sought after by PSU's than ever before.
- ❖ Apart from the manufacturing concerns, public utilities like transport, telecommunications, and a host of service organizations are recruiting professional managers in a big way.

## **FUNCTIONS OF MANAGEMENT**

There is no consensus among the management thinkers on the classification of management functions. The number of functions as well as the terminology used to describe them are not alike. Henry Fayol identifies five functions, viz., planning, organizing, commanding, co-ordinating and controlling. Newman and Summer recognize only four functions, namely – planning, organizing, staffing, directing, coordinating, reporting and budgeting. Koontz and O'Donnel classify the functions into planning, organizing, staffing, directing, and controlling. For the purpose of our study, we shall confine the discussion the following four functions of management – planning, organizing, staffing, directing and controlling. Since staffing function forms the core of personnel management, of late, it has become customary not to discuss it at great length in this paper – management concepts.

## **PLANNING**

Planning in simple is looking ahead. It is preparing for the future. It involves outlining a future course of action. Planning makes the things to happen. Therefore, it is needless to say that in the absence of planning, things are left to chance. It is unique in that, it precedes all the other managerial functions. It involves deciding the objectives and formulating the policies and procedures to achieve them. Effective planning provides answers to questions like – what to do? How to do? who is to do? and when to do?

Planning is a function performed by managers at all levels. Though every manager plans, the plans developed by different managers may vary in respect of scope and importance. For example, plans made by top managers have a wider scope with a focus on the organization as a whole and normally cover a longer period. On the other hand, plans developed by middle and lower level managers relate to the divisions or departments and usually cover a short period. Systematic planning helps in facing the uncertainties of future with less embarrassment. It helps in making things happen in the expected way.

## **ORGANIZING**

Organizations achieve objectives by using physical and human resources. When people work in groups, every one in the group should know what he is expected to achieve and with what resources. In other words, organizing involves in establishing authority - responsibility relationships among people working in groups. The manager's task in organizing aims at creating a structure that facilitates the achievement of goals. Organizing involves:

- ❖ determination of activities required to achieve goals;
- ❖ grouping of these activities into departments;
- ❖ assignment of such groups of activities to a manager;
- ❖ delegation of authority to carry them out; and

- ❖ provision for coordination horizontally and vertically in the organization.

The managerial function of organizing makes the performance of the tasks easy. It involves in designing the structure. The resulting structure varies with the task. A large organization with huge markets needs a different structure compared to a small organization. Similarly, structure of an organization operating in a stable environment may be different from the one operating in a dynamic environment. Thus, the size and nature of the activities involved, the type of environment, and the overall business strategy, influence the structure.

### STAFFING

Organising process results in the creation of a structure with various positions. Staffing involves manning the various positions of the organisation. It includes manpower planning, recruitment and selection of the right people, training and developing them, deciding financial compensation, appraising their performance periodically. There is a debate whether staffing function is to be performed by all managers in the organisation or handled by personnel department alone. However, in general, some processes of staffing are performed by personnel department only. For example recruitment and selection, training, fixation of salary, etc. Performance appraisal, on the other hand, may be done by all managers.

### DIRECTING

Once plans are made and the organisation is created, the focus shifts to the achievement of objectives. This function is called by various names: directing, leading, motivating, actuating and so on. It basically involves directing or leading the activities of the people. The manager directs the activities of his

subordinates by explaining what they have to do and by helping them perform it to the best of their ability. In leading the people, the manager performs the following three distinct tasks:

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|---------------|---|--|
| Communication | : | the process of passing information from one person to another:                         |
| Leadership    | : | the process by which a manager guides and influences the work on his subordinates; and |
| Motivation    | : | the act of stimulating the people so that they give their best to the organisation.    |

Leading is a function predominantly interpersonal in nature. In the organizational context many problems arise because of the failure of managers to understand the people, their aspirations, attitudes, and behaviour as individuals and in groups. If the manager fails in leading the people towards better performance, any amount of planning and organizing, however effective they are, may not help the organisation.

### CONTROLLING

Planning and controlling are two functions are closely interrelated in that while plans specify the objectives to be achieved, control as a managerial function facilitates to know whether the actual performance is in conformity with the planned one. So that, in the event of deviations, appropriate corrective measures can be taken. In the absence of adequate control mechanism, unexpected changes in the environment may push the organisation off the track. Thus, controlling implies measuring and correcting the activities to assure that events conform to plans. That is why planning and controlling are often



described as the ‘Siamese’ twins of management. It involves four main elements:

- ❖ Establishing standards of performance;
- ❖ Measuring the actual performance and comparing it against the standard performance;
- ❖ Detecting deviations, if any, in order to make corrections before it is too late; and
- ❖ Taking appropriate corrective measures.

#### ACTIVITY - B

Briefly describe the functions of management.

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#### SOCIAL RESPONSIBILITIES OF BUSINESS

According to Keith Davis, “Social Responsibilities refer to the businessman’s decisions and actions taken to reasons at least partially beyond the firm’s direct economic or technical interest”. To quote Andrews, “By social responsibility, we mean intelligent and objective concern for the welfare of society that restrains individual and corporate behaviour from ultimately destructive activities, no matter how immediately profitable, and leads in the direction of positive contribution to human betterment, variously as the latter may be defined”.

H.R.Bowen’s observation on social responsibility is more clear and point to the specifics of the concept. He suggests that business managers are bound to “pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society”. Thus, as the above definitions indicate, the concern for the society on the part of managers imply a particular behaviour which is in line with the societal interests. It suggests that they refrain from actions detrimental to the interests of the society.

#### RESPONSIBILITIES TO VARIOUS GROUPS

In a broad sense, business owes a lot to the various groups such as customers, employees, shareholders, government and the community at large in which it exists. These groups in the society are called interest groups’ or ‘stakeholder’ in any modern business organisation. Let us examine how an organisation responds in a socially responsible ways to cater to the growing demands of all these interest groups.

##### Towards The Customers

Production and supply of quality goods and services at an affordable price in the primary responsibility of business. Customer service should be the motto of the business. It involves offering a fair deal to the customer by indulging in ethical business practice. Therefore, every manager in order to serve the customers in an effective way should restrain from:

- ❖ making misleading advertisements aimed at deceiving the consumer;
- ❖ giving wrong or false information about the ingredients, quality, origin, etc. of the product;

- ❖ entering into collusive agreements with other firms to exploit the customers;
- ❖ making false claims of being an authorized dealer / importer of certain goods; and
- ❖ giving misleading names to the products, etc.

#### **Towards Employees**

- ❖ proper election, training and promotion;
- ❖ recognition of the value of human resource;
- ❖ maintaining cordial relations with employees;
- ❖ recognition and encouragement of constructive unionism;
- ❖ fair wage in relation to the cost of living;
- ❖ better working conditions;
- ❖ initiating appropriate measures for the development of human resource; and
- ❖ increase in productivity and efficiency by recognition of merit, by providing opportunities for creative talent and incentives.

#### **Towards Shareholders**

Shareholders are the real owners of a corporation. In view of the several practical limitations for them in overseeing the day-to-day operations of the business, an organisation must strive to provide:

- ❖ security to their funds;
- ❖ a fair rate of return on their investment;
- ❖ correct information about the operations of the company; and
- ❖ proper appreciation of the value of their investment in the company by identifying new opportunities that contribute for the growth of business.

#### **Towards Creditors / Suppliers**

Creditors or suppliers provide the necessary inputs to the business. Business has, therefore, certain responsibilities to them. The management can discharge its responsibilities towards this group by

- ❖ realizing the importance of maintaining good business relations with them;
- ❖ meeting the payment obligations timely;
- ❖ providing true and correct picture about the financial aspects of the company; and
- ❖ helping them grow along with the growth of the company, etc.

#### **Towards Government**

Government provides various facilities for the development of business. Infrastructural facilities like roads, telecommunication, transport, banking, insurance are some of the facilities created by the government without which no business, worth mentioning can conduct its affairs smoothly. Therefore, business also in turn owes to the government in the following ways.

- ❖ Business enterprises should act like law-abiding citizens;
- ❖ Taxes and other duties should be paid timely and honestly;
- ❖ Compliance with the rules and regulations as stipulated by various laws of the land; and
- ❖ Supplementing the governments efforts in the developmental activities, etc.

#### **Towards Society at Large**

Any business organisation can exist as long as it enjoys societal sanction. If it fails to safeguard the interests of the society, the pressure from various segments of the society mounts up. Such a situation eventually leads to the promulgation



of various acts by the government. That is why, it is always desirable for the business to keep the government at bay. Some managements conduct their affairs in such a responsible way where governments intervention is not warranted. For instance, the origin of several laws governing the business organizations may be traced back to the failure of business organisation in protecting the intensity of the various groups in the society. An organisation can act in a socially responsible way by:

- ❖ properly deciding the product policies in line with the national priorities;
- ❖ preventing the creation of monopolies;
- ❖ ensuring hygienic disposal of smoke and waste and other effluents;
- ❖ providing to the community accurate information about its working; and
- ❖ preserving the national resources of the nation by not indulging in reckless exploitation of the resources, etc.

#### ACTIVITY-C

Briefly describe the social responsibilities of business.

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#### SUMMARY

In this lesson, the meaning nature and functions of management are explained. The concepts of Management as Science, Management as an Art and Management as a Profession are described. The social responsibilities are business towards customers, employees, shareholders, creditors / suppliers, government and society at large are examined.

#### SELF – ASSESSMENT QUESTIONS

1. What is Management? Explain the nature of management.
2. Describe whether management is Science or Art.
3. What are the functions of management? Explain.
4. Explain the Social Responsibilities of Business.

#### FURTHER READINGS

1. Drucker, peter, F., Management: Tasks, Responsibilities and Practices, Allied Publishers, New Delhi, 1981.
2. Stoner, James.A.F and Freeman. E.R., Management, Prentice-Hall of India, New Delhi, 1989.
3. Keith Davis, “The meaning and Scope of Social Responsibility” in McGuire (e), Contemporary Management, Prentice-Hall, Eaglewood Cliffs, 1974.

#### KEY TERMS

- ❖ Management
- ❖ Profession
- ❖ Planning
- ❖ Organizing
- ❖ Staffing
- ❖ Directing
- ❖ Controlling

LESSON

2

LEVELS IN MANAGEMENT AND  
MANAGER AND ENVIRONMENT

LESSON OUTLINE

- Levels of Management
  - Supervisory Management
  - Middle Level Management
  - Top Level Management
- Managerial Skills
  - Technical Skills
  - Human Skills
  - Conceptual Skills
- Manger and Environment
- Direction Action Environment
- Indirect Environment

LEARNING OBJECTIVES

After reading this lesson you should be able to

- ❖ Describe the levels in management
- ❖ Understand the skills required at each level of management
- ❖ Explain the dynamics of environment
- ❖ Examine the various forces in the environment that affect the business

INTRODUCTION

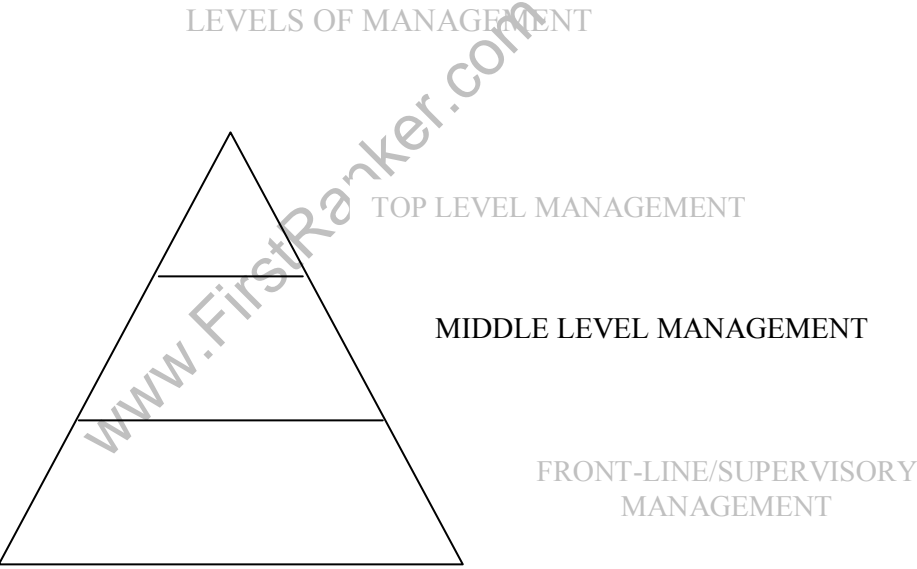
In an organisation all those who are responsible for the work of others are usually known as managers. Though their primary task remains the same – getting the things done by other people-wide variances may be found with regard to the authority and responsibility of managers. These differences are largely due to the differences in the levels of management. In any company, the total management job requires many skills and talents. Obviously, therefore, the job of manager is divided and subdivided. Such an arrangement implies different levels of management. As a mater of custom and convenience, we normally visualize a company’s management as a pyramid as shown in figure 2.1.

LEVELS OF MANAGEMENT

The three levels of management that are commonly found in any organisation are lower or front-line, middle and top management.

Figure – 2.1

LEVELS OF MANAGEMENT



### Front-Line or Supervisory Management

This is the lowest level in the hierarchy of management. Usually the jobs at this level are the entry level positions into management profession. Managers at this level direct the operating employees (workers). They are close to the action, for their job involves supervising the activities of operatives. Front-Line managers are called foreman, supervisor, superintendent, inspector and so on. For instance, in a manufacturing concern in the production department they are called foreman, in marketings, finance and others departments, they are called management trainees or junior executives. Similarly, in a government office, the term superintendent or section officer are normally used.

### Middle level Management

Middle management level includes, in many organizations, more than one level. Managers who work at levels between the lower and top levels constitute the middle management. departmental heads, Regional managers, Zonal managers and so on fall in this category. They report to top managers. Their principal responsibilities are to direct the activities of lower level managers who implement the organisation's policies.

### Top level Management

Top management constitutes the highest level in the management hierarchy. This is the policy making level in any organisation. This level consists of a small group of executives. Board of Directors, Chairman, Managing Director and the top functional heads and divisional managers comprise this level. Top managers are responsible for the overall management of the organisation. They decide the enterprise objectives, policies and strategies to be pursued to achieve those

objectives. They provide direction to the organisation by guiding the organisation's interactions with its environment.

### ACTIVITY - A

Write briefly on different levels in management.

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### MANAGERIAL SKILLS

Management job is different from other jobs. It requires elements of stewardship and commitment to the purpose. It involves the obligation to make prudent use of human and material resources. It requires sound judgment to handle complex situations. Further, the nature of the job becomes increasingly complex at each higher level because of the increase in the scope of authority and responsibility. Therefore, each higher level requires increased knowledge, broader perspective and greater skills.

For purpose of analysis, skills required of any manager are classified under three different heads – technical, human (Employee relations skill) and conceptual skill as shown in figure 2.2. The exhibit helps in understanding the levels of management responsibility, the principal skill requirements, and the extent to which each kind of skill is required at each level.

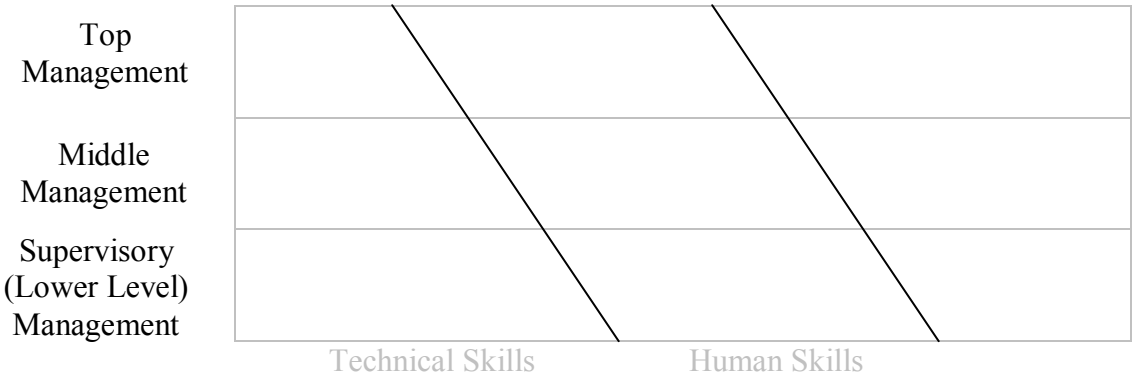


Figure 2.2 Management Levels and Skills.

Technical Skills

Technical skills refer to the ability to use the tools, equipment, procedures, techniques and knowledge of a specialized field. It is primarily concerned with the ways of doing the things. It implies proficiency in a specific field of activity. Technical skills are most important for the lower level managers, because by nature their job involves supervision of the workers. Effective supervision and coordination of the work of the subordinates, therefore, depends on the technical skill possessed by the lower level manager. Any supervisor without a sound knowledge of the job cannot make an effective supervisor. Such supervisors are not respected by the subordinates at the shop floor. The relative importance of the technical skills as compared to the other skills diminishes as one moves up to higher levels of management.

Human Skills

Human skills are primarily concerned with persons, as contrasted with “things”. When a man is highly skilled in employee relations, he is aware of his own attitudes, assumptions, and beliefs and recognizes their limitations as well as their usefulness. He accepts, as an important fact of life, the existence of

viewpoints and feelings, different from his own. Thus, human skill refers to the ability of the manager to work effectively as a group member and to build cooperative effort in the team he leads. It is the ability to work with, understand and motivate people. He understands why people behave as they do and is able to make his own behaviour understandable to them. he can foresee their reactions to possible courses of action and, is able to take their attitudes into account. His skill in working with others is natural and continuous. He does not apply it in random or in inconsistent fashion. It is a natural ingredient of his every action.

Conceptual Skills

The skill also called design and problem-solving skill, involves the ability;

- ❖ to see the organisation and the various components of it as a whole;
- ❖ to understand how its various parts and functions mesh together; and
- ❖ to foresee how changes in any one of these may affect all the others

Conceptual skills extend to visualizing the relation of the organisation to industry, to the community and to the political, economic and social forces of the nation as a whole and even to forces which operate beyond the national boundaries. It is the creative force within the organisation. A high degree of conceptual skill helps in analyzing the environment and in identifying the opportunities and threats. Managements of companies like ITC, Larsen & Toubro, Asian Paints, Bajaj Auto in the private sector and National Dairy Development Board in the public sector, to mention a few, have amply demonstrated this skill in gaining a competitive edge over their competitors.

As you have understood by now – the three types of skills discussed so far are not mutually exclusive. In other words, management job always requires all the three skills but in different proportions depending upon the level of

management. there is a gradual shift in the emphasis from the bottom to the top of the pyramid. Technical skills and human skill are always in great demand at the lower level of management for it is there the productive processes and operations are carried out. It is there where you find most of the people. It is there where the action takes place. The need for conceptual skill is greatest at the top level of management. Obviously, the top managers are not often involved in the direct application of specific methods, procedures and techniques, compared to those at the lower echelons of management.

As evident from the foregoing discussion, at the entry level is not the management job, that is, at the supervisory level, besides technical skills, you have to acquire human skills and the problem – solving skills (conceptual). To climb up the organizational ladder, you must not only be good at the skills required for the present job, but also learn and acquaint yourself with the skills required at the next level. As result, in the event of promotion to the next higher levels, you would feel at home and discharge the responsibilities with ease.

Based on the differences in the type of skills required, organisations assess the training needs of the managers. Accordingly, appropriate training methods or modules are designed to equip them with the skill required at the respective levels. Although, each of these skills is needed in some degree at every level of management, there are successful executives who have no great amount of technical skills. But they are able to compensate the lack of that skill through superior creative ability and skill in selecting, planting and effectively motivating subordinates who are strong in technical skills.

#### ACTIVITY – B

Explain the different proportion of management skills required at different levels of management

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#### MANAGEMENT AND ENVIRONMENT

Like human beings, organisations are the products of environment. As explained in Lesson – 1, all organisations whether they are engaged in business or non-business activities draw the inputs from the environment, convert the inputs into outputs and send them back to the environment. Thus every organisation has a two-way interaction with the environment.

A business organisation is an open system which is influenced by the environment and in turn influences the environment. The environment of the business consists of two components – internal as well as external environment. The former refers to the various systems inside the organisation such as, technology, structure, processes and people. As all these aspects constitute the subject matter of this course and are discussed in various lessons, the internal environment, therefore, does not merit a detailed analysis. As such, this lesson focuses on the important variables of the external environment which have a bearing on the successful functioning and survival of the business.

#### IMPORTANCE OF THE ENVIRONMENT

The need to consider the forces external to the organisation was first incorporated into management thought during the late 1950s. It was one of the

major contributions of the systems approach to management, which emphasizes and stressed the need for managers to view their organisation as an entity of interrelated parts intertwined with the outside world. In an ever changing business environment as of today, changes in the outside world have made the need to consider the environment more important than ever. As Alvar Elbing states, “the external environment of an organization is a subject of increasing challenge for today’s managers. In fact, the managers of societies major organisations – business, education, government – have been faced by recent events to place an increasing focus on a rapidly changing environment and its effect on the internal organization”. Even if changes are not so significant, management would still have to consider the environment because, as an open system, an organization is dependent on the outside world for supplies, energy, workers and customers. As all these effect the organisation’s very survival, management must be able not only to identify the factors in its environment but also to cope with them.

In this respect, organisations are similar to biological organisms. According to Charles Darwin’s theory of evolution, the species that have survived have done so because they were able to evolve and adapt to changes in their environment. Organisations, too, must adapt to changes in their environment in order to survive and be effective.

### **DIRECT ACTION VERSUS INDIRECT ENVIRONMENT**

The external environment affecting the organisation may be divided into two major categories – Direct action and Indirect action environment. Direct action environment consists of those factors that directly affect and are affected by the organisation’s operations. These factors would include suppliers, labour unions, the various laws of the land, customers add competitions. The indirect

environment, on the otherhand, consists of those factors that may not have an immediate, direct effect on operations but nevertheless influence the activities of the firm. These include such factors as technology, socio-cultural and political factors, general economic conditions and so on. Let us now understand the impact of all these factors in detail.

### **DIRECT ACTION ENVIRONMENT**

#### **Suppliers**

As already understood, an organisation is a vehicle for transforming inputs into outputs. The important inputs are materials, equipments, energy, capital and labour. The relationship between the organisation and the suppliers of these inputs presents the forces in the environment that directly influence the operations of a firm. If an organisation is unable to obtain these essential inputs of right quality, quantity and at the right price, it cannot possibly achieve the objectives.

#### **Laws**

Virtually every aspect of the business is influenced by the laws of the land. The form of organisation, the management and the way how a firm conducts itself in the society are very much influenced by the various provisions of the laws. For instance, The Companies Act, Factories Act, Workmen’s Compensation Act, Industrial Disputes Act, Provident Fund Act, just to name a few, affect the functioning of the business. As a responsible corporate citizen, an enterprise has to comply itself with the provisions of these acts.



**Customers**

The justification for the existence of a firm lies in the satisfaction of customer needs. In this context, it is appropriate to remember Peter F. Drucker's observation on the purpose of business. According to him, the purpose of any business is to create a customer. There is no exaggeration in stating that it is customers in the market place who dictate the fortunes of any business. Needless to say that those organisations which neglect the customers expectations and aspirations would find the long-term survival very difficult. Customers tastes and preferences are not static, but keep on changing. Mention may be made of some of the changes taken place in the recent past: the preference for quartz watches, audio-video gadgets, various sophisticated domestic appliances, cotton garments, fast foods and so on. Organisations which are adept in identifying the changes in the customers attitudes and preferences or which can comfortably respond to the changes in a positive way would survive and those which fail to take cognizance of changes in customers preferences would ultimately fall on the way side.

**Competitors**

Many a policy of the organisation are influenced by the competitors. In a competitive environment, the market place is characterized by moves and countermoves. The post-liberalisation Indian markets for many products offer an excellent example as to how competition influences the organisations. In the last few years, as could be easily seen, in almost all the sectors of the Indian economy, competition has tremendously increased. As a result, many firms are forced to wake up from their slumber. They are forced to unlearn many of the practices and attitudes of the pre-liberalisation/protection era. Company after company is now redefining its business, rediscovering the markets, talking in

feverish pitch about customer service, human resource development and concern for the society.

**ACTIVITY – C**

Explain organisations external environment be considered by management.

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**ACTIVITY – D**

Briefly explain the Direct Action Environment

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## INDIRECT ENVIRONMENT

The indirect environment is usually more complex and uncertain than the direct. Management is often compelled to make assumptions about the impact of the various factors like technology, general economic conditions, socio-cultural and political factors. Let us, therefore, examine the impact of these factors on the business organisation.

### Technology

Technology, in the organizational context, influences the ways of doing things. It influences various processes. Technological changes affect the efficiency with which products are manufactured and sold, when a product will become obsolete, how information can be gathered and processed, and what customers expect from the organisation's product and so on. Important technological developments that have profoundly affected the organisations and society in the last few years are the computer, laser, xerography, integrated circuits, semiconductors, television, satellite communication, nuclear power, synthetic fuels and foods etc. all these innovations have thoroughly changed the face of the society. Therefore, today's organisations need to keep abreast of technological changes that affect their operations and products so as to remain competitive. Failure of the management to clearly gauge the technological changes would cost the business dearly. It endangers the very survival of the organisation.

The pace at which technological changes occur varies from industry to industry. In some industries where technology is stabilized, the changes are less frequent and less turbulent. On the other hand in some industries like information technology, telecommunication systems, polymers, etc. changes are

frequent. Depending upon the nature of business and the type of technology used, every organisation has to assess the technological environment from time to time.

### Economic Conditions

Managers must also assess how changes in general economic conditions will affect the operations. The fluctuations in economic activities of a nation as measured by the various parameters like the gross domestic product (GDP), price level, employment, aggregate demand and supply of consumer and industrial goods, etc. will have far reaching impact on the prosperity of the business. These factors affect the cost of the inputs and the ability of customers to buy the goods and services. Organisations must be able to tackle effectively the inflationary and recessionary trends in the economy. When the economy is in an upbeat mood, firms normally benefit enormously and commit the resources for further growth with a hope of continuity of favourable economic conditions. Problems arise when the economy turns to the downswing. It is at that stage, firms have to adjust themselves to the down turn in economic conditions. Efficiency in operations, elimination of wastage, product planning, etc. hold the key for the survival of firms in such an adverse economic climate. As business organisations, in terms of size and impact, have grown into mega institutions, their failure will have disastrous effects on the society. By virtue of their size, they also influence significantly the economic conditions of the nation. Further, it is important to note that a given change in economic conditions may have a positive affect on some organisations and a negative affect on others. Therefore, a manager must be able to clearly assess the impact of changes in economic conditions on the industry in general and his firm in particular.

## SOCIO-CULTURAL FACTORS

Organisations are affected by the culture of the particular society in many ways. Firms which have their operations in more than one country have to adopt to the respective cultures in an effective way. Otherwise, they find it difficult to gain the acceptance of the society. Sound understanding of the cultural variables is all the more important for firms in a country like India where there are several diversities in cultures of various regions within the country.

Culture is a wider concept which includes value systems, beliefs, likes and dislikes, attitudes and perceptions. If the products or services of a firm are not in line with the culture of the place, they may not be accepted by the society. For instance, in India 'Miss' brand cigarette targeted at the women was a failure because it is against the cultural echoes of the society, likewise at the international level, many brands have failed to gain any market because they are out of tune with the respective cultures. At the same time, it has to be remembered that certain products and services also affect the culture of a place. The satellite television which has made deep inroads into the Indian culture, and how certain values particularly in the Indian youth are changing makes a good example.

As such, an organisation cannot insulate itself from the socio-cultural factors specific to a community. For example, paying bribes to obtain contracts or political favours, promotion on the basis of favouritism instead of competence, and spreading unfavourable rumours about a competitor are considered unethical immoral business practices in many countries. In some countries such practices are seen as normal and accepted business practice because of differing socio-cultural factors. In this regard General Electric's former chairman Reginald Jones observation is worth mentioning. He states that

“organisations must be able to anticipate the changing expectations of society; and serve them more effectively than competing firms. This means that the organisation itself must change, consciously evolving into an institution adapted to the new environment”.

## POLITICAL ENVIRONMENT

The performance, growth and survival of business in general, to a larger extent, depends on the attitude of the government towards the business. Since government is fully empowered to monitor and control the various institutions of the society, the policies pursued by the government affects the business in a significant way. The continuity of policies is very much essential. That depends on the stability of the government of the particular nation. For instance, the attitude of the government in India towards foreign companies has undergone dramatic change in the last two decades. In the late seventies during the Janata Party rule at the centre, Coca-Cola, IBM and a few other multinationals were forced to leave the country. There were several other restrictions on the equity holding of foreign partners. The whole thing has changed, in the last few years so much so that multinationals are not only welcome but also offered many facilities. Acts like FERA and MTP, to a larger extent have become redundant.

The cooperation that exists between business and government in Japan has in fact helped the Japanese Companies to conquer the world markets in the last few decades. In Japan, Ministry of International Trade and Industry (MITI) extends out excellent support to the organisations to emerge internationally competitive. In India too, of late, we see a lot of change in the attitude of the government both at central and state level towards the business. Various state

governments are weighing each other with attractive packages to woo the foreign investment in many core sector industries.

The various factors discussed so far highlight the impact of the environment on the business. If companies like Arvind Mills, Larsen & Toubro, Reliance, Ranbaxy, ITC, etc. are able to go global, it is precisely because of their ability to assess the changing environment effectively and to adapt to the changes with considerable ease. As a result, we see a few Indian companies reaching the status of being called Indian multinationals.

#### ACTIVITY – E

What factors do you consider as organisations in direct environment?

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#### SUMMARY

The levels of management such as Front -line managers, Middle level managers and Top-level managers in the management are described through this roles and responsibilities. The skills required to the people at different levels such as Technical skills, Human skills and Conceptual skills are also explained. As business organisations are influenced by the environment, in this lesson, this impact of direct action environment and indirect environment are explained.

#### SELF – ASSESSMENT QUESTIONS

1. What are the various levels in management? Explain them.
2. What are the important management skills required at different levels of management?
3. If you are a practicing manager, analyse the various skills you possess in relation to the level of you job.
4. Describe the major factors in the environment of business and how they affect the survival of an organisation.
5. Present the call of at best two Indian Companies and explain how they responded to changes in the environment.

#### FURTHER READINGS

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#### KEY WORDS

- |                     |                     |
|---------------------|---------------------|
| ❖ Managerial skills | ❖ Conceptual skills |
| ❖ Technical skills  | ❖ Leader            |
| ❖ Human skills      |                     |

## LESSON

# 3

## PLANNING AND PLANNING PROCESS

### LESSON OUTLINE

- Purpose of Planning
- Principles of Planning
- Steps in Planning
- Characteristics of Sound Plan
- Long Range and Short Range Planning
- Types of Plans

### LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Understand the principles and purpose of planning
- ❖ Explain the steps in planning
- ❖ Analyse the characteristics of a sound plan
- ❖ Describe the strategic/long range planning
- ❖ Distinguish operational planning from strategic planning
- ❖ Understand to develop different types of plans.

### INTRODUCTION

Planning is an important managerial function in that there is no choice between planning or no planning. The choice is only in regard to the method and techniques used to plan. It is anybody's knowledge that we plan many things in our day to day lives. We plan to go on a holiday trip, plan our careers, plan our investments and so on. Organizations are no exception. Lot of planning is done by managers at all levels. Planning is the basic process by which we use to select our goals and determine the means to achieve them. Lot of information has to be gathered and processed before a plan is formulated. In other words, a plan is like a jigsaw puzzle. All the pieces have to be put together properly, so that they make sense.

Planning is necessarily forward looking. It is looking into the future. It bridges the gap between where we are and where we want to go. It involves visualizing a future course of action and putting it in a logical way. Let us look at what the following observations that suggest about planning.

- ❖ "Failure to plan is planning to fail"
- ❖ "Planning is out line a future course of action in order to achieve an objective"
- ❖ "Planning is looking ahead"
- ❖ "Planning is getting ready to do something tomorrow"
- ❖ "Plan is trap laid down to capture the future"

**ACTIVITY – A**

Write the meaning of planning

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**PURPOSE OF PLANNING**

It is no exaggeration that in the absence of planning, events are left to chance. As a manager in such a case, you are depending on luck. You may, as a result, in all probability, end up in frustration. Organisations often fail not because of lack of resources, but because of poor planning. Whatever the resources you have, in the absence of systematic planning, the resources may not help you in achieving the objective. The following factors further highlight the importance of planning.

**a. To achieve objective**

While developing a plan, you have to ask yourself a few questions.

- ❖ Why am I making this plan?
- ❖ What am I trying to accomplish?
- ❖ What resources do I need to execute the plan?

Objectives are the ends sought to be achieved by the organisations. The above questions, if properly answered provides lot of clarity to the objectives. In other words, they force you to be clear about the objectives, the time frame required to achieve them and the resources required. It forces you to visualize

the future in an organized manner. The saying that “when a man doesn’t know what harbour he is making for no wind is the right wind” is quite appropriate in the case of planning. Systematic planning, thus, starts with a clear statement of objective. All the important inputs necessary to achieve the objectives are carefully thought of the uncertainties of the future, if any, are also taken into consideration.

**b. To make the things happen**

Effective managers anticipate future and prepare themselves to meet the challenges of the future. They are rather pro-active. They influence the outcome of the events in a significant way. In any modern business, the interests of many people are involved the shareholders, employees, creditors, consumers and the Government are the major interest groups in any organisation. Further, the interests and expectations of all these groups are varied and at times are in conflict. That apart, they constantly change in a dynamic business environment. In the light of the uncertainties involved in the future environment, your job, as a manager, is to foresee the future and predict the consequences of actions. In other words, you have to look down the road into future and prepare yourself to meet the uncertainties ahead. A well thought out plan solves many of the problems associated with the uncertain future.

**c To cope with change**

Organisations are products of environment. The ability to deal with the environment has enabled many an organisation to survive, despite other weaknesses. Alert managements continually tune in to the environmental forces. On the other hand, managements which fail to adapt would eventually fall on the



way side. Therefore, in the managerial job, you have to constantly analyse the impending changes in the environment and assess their impact on your business. For instance, the liberalisation policies pursued by the government have, of late, brought in too many changes. Markets are shifting due to increased competition. Pressure on the existing resources is increasing. Expectations of the employees as well as the consumers are changing. Product life – cycle is becoming shorter due to rapid technological changes. All these changes exert a tremendous pressure on the management.

#### **d To control the events**

Planning and control are often described as the ‘Siamese’ twins of management. When you plan the events, you make them happen in a particular way. The specific objectives decided in advance themselves become the standards or the measuring tools. Therefore, it goes without saying that plans provide mechanism to know whether the events are happening in the way expected. Planning ensures the events to conform to plans. Thus, if you do not plan (no clear objectives), you do not know what to control. Control assumes significance in a dynamic environment as of today, where several forces push you away from reaching the goal. Appropriate control devices help you to check the course from time to time, so that you will be able to take the appropriate corrective measures.

#### **ACTIVITY – B**

Write in brief the purpose of planning

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#### **PRINCIPLES OF PLANNING**

Systematic planning is essential for the success and survival of any organisation. Organisations fail not because they don’t plan, but because they don’t plan in an effective way. An understanding of the following principles helps one to achieve effectiveness in planning, so that you can guard yourself against the possible mistakes that are often committed by managers.

##### **(i) Take Time to Plan**

As a plan is a decision regarding a future course of action, it specifies the sequence of event to be performed. It involves the commitment of organizational resources in a particular way. Therefore, if a plan is not conceived well, the resources would be put to wrong use. It becomes a wasteful exercise resulting in agony and frustration. To avoid such unpleasant outcomes, several probing questions have to be asked. Planning in haste with incorrect information, unsound assumptions and inadequate analysis of the environment has to be avoided by all means. Otherwise, you may save some time in quickly developing a plan, but in the event of things going wrong, you are hard pressed for time and resources to correct yourself. It not only lands you in trouble, but the organisation also.

**(ii) Planning can be top down and bottom up**

Normally in any organisation major enterprise plans are developed by the top management. These plans are wider in scope and provide the direction to the whole organisation. They spell out what the organisation wants to achieve over the years. The overall plan thus formulated by the top management is split into departmental plans. Accordingly, plans for production, marketing, finance, personnel and so on, stem from the basic plan of the organisation. The other operational plans at various levels down the organisation, flow from the departmental plans. This approach is called top-down approach to planning.

In contrast, bottom-up approach involves information emanating from the lower levels – that is, top management collects information from lower levels. On the basis of such information, plans are formulated. The underlying assumption is that people at the operational level are closer to the action and they possess valuable information. In this approach, the initiative for planning comes from the lower levels in the organisation. This approach makes use of the rich experience of the subordinates. It also helps to motivate the people and elicit commitment from them. However, the choice of the method depends on the size of the organisation, the organizational culture, the preferred leadership style of the executive and the urgency of the plan.

**(iii) Involve and communicate with all those concerned**

Modern business organisations are so complete that various operations are highly interrelated. Such an interrelation of activities requires the involvement of all the people concerned with the achievement of goals. For instance, a plan to improve the quality of the products (Quality control plan) may require the

cooperation of the people in the production, to involve the concerned people in these departments. Such a participation helps in instilling a sense of commitment among the people. They also in turn gain a sense of pride for having been a party in deciding the plan. Such an involvement makes possible the process of sharing information. If concerned people are not involved, there may be unnecessary gaps in the execution because of lack of understanding of the plans.

**(iv) Plans must be flexible and dynamic**

Your managerial career indeed would be a “bed of roses” if there are no unexpected changes in the environment. Day in and day out, you are confronted with too many changes forcing you into so many dilemmas or problems. Most of such problems are caused by unexpected events in the environment. If the plan is rigid with less scope for modifications as required by the changes in the environment, the organisation would ultimately sink. In a static environment, of course, there may not be a problem with a rigid plan. But in a dynamic environment, to meet the unexpected changes, adequate flexibility has to be built into a plan. Otherwise, the plan itself becomes a limiting factor.

**(v) Evaluate and revise**

While building into the plans the required flexibility, you should not lose sight of the additional costs involved in such flexibility. You must also remember that flexibility in plans may not be possible always. For example, a plan for a petroleum refinery may not offer any flexibility because the machinery can hardly be used for any other purpose. Evaluation of the plan at regular intervals is necessary to make sure that it is contributing to the objectives. Like a pilot, who in the high skills checks the course to make sure that he is flying in the right direction, the manager has to, from time to time evaluate and review the plan. Such an exercise enables to initiate the corrective measures at the right

time before it is too late. This depends on the accuracy of the information systems in the organisation, though rich information reaches the management.

### STEPS IN PLANNING

Though there may be a few variations in the exact procedure adopted by different organisations in planning, the following are the basic steps;

#### (a) Establish goals

Planning begins with decisions about what the organisation wants to achieve during a specified period. The goals of an organisation and various subunits have to be decided and spelt out in clear terms. It is always desirable to express the goals in quantitative terms for all the key areas of the business like production, profit, productivity, market share, employee relations, social responsibilities, etc. For instance, instead of saying that the objective of business is to achieve a fair rate of return on the investment, it may be given a quantitative expression, say, 10 or 15 percent return on the investment. The time frame in which the objectives have to be achieved must also be specified. Besides, adequate attention has to be paid to the resources required to achieve the objectives. Thus what to achieve, when, how and with what resources are a few important questions that should be answered at this stage.

Since goal setting is the essential first step in planning, managers who fail to set meaningful goals will be unable to make effective plans. If Telco is able to retain its prominence in the Heavy Commercial Vehicle (HCV) segment, it is because all the employees of the organisation know clearly that the primary objective is retaining the leadership in the industry. For instance, SAIL's corporate mission "Infrastructuring India" explains basic purpose and board

objectives of the company to a larger extent. The mission of the organisation, the corporate values, experience, policies of other experiences provide adequate guidance to the managers in goal setting.

#### (b) Establish Planning premises

Planning premises, in simple, are the assumptions that should be made about the various elements of the environment. Planning assumptions or premises provide the basic framework in which plans operate. Appropriate assumptions have to be made on various aspects of the environment – both internal and external to the organisation. Otherwise, it will be like fighting a battle without a clear assessment of the enemy's strengths and weaknesses.

*(i) Internal premises:* Important internal premises include sales forecasts and policies of the organisation. Each one of these elements is a critical success factor. For instance, the accuracy of the sale forecast influences the procurement of resources, production scheduling and the marketing strategies to be pursued to achieve the objectives. Similarly, however effective the objectives are, it is the people who have to perform and achieve. If their attitude is not positive, nothing moves. The important internal premises include sales forecasts, resources of the organisation, skills, attitudes and beliefs of the people.

*(ii) External premises:* Important external premises relate to all those factors in the environment outside the organisation. They include technological changes, general economic conditions, government policies and attitude towards business, demographic trends, socio-cultural changes in the society, political stability, degree of competition in the market, availability of various resources and so on.

It is evident that some of these factors are tangible while others are intangible. For example, material and human resources availability, etc. are tangible factors which can be stated in quantitative terms. On the other hand factors like political stability, attitudes of the people, certain other sociological factors are intangible, in, that, they cannot be measured quantitatively. Effective premising – the making of appropriate assumptions, helps the organisation to identify the favourable and unfavourable elements in the environment. Though accurate premising is difficult, anticipating future situations, problems and opportunities would undoubtedly help the managers in reducing the risk, though not completely eliminating it.

**(c) Decide the planning period**

How far in the future should a plan be made is another pertinent question in the process of planning. Business vary in their planning periods. In some cases plans are made for a short period, varying from a few months to an year, while in some other cases, they are made to cover a longer period, to cover a period of more than a year. The period may extend upto 5-10 years and even beyond. Companies normally plan for a period that can be reasonably anticipated. The lead time involved in the development and commercialization of a product and time required to recover the capital investment (pay-back period) influence the choice of the length of the plan. Again, in the same organisation, different plan periods may exist for different purposes. This gives raise to the tow important concepts – operational planning and strategic planning. While operational plans focus on the short-term, strategic plans focus on the long-term.

**(d) Develop alternatives and select the course of action**

The next logical step in planning involves the development of various alternative courses of action, evaluating these alternatives and choosing the most suitable alternative. Objectives may be achieved by different courses of action (alternatives). For example, technical know-how may be developed by in-house research, collaboration with a foreign company or by tying up with a research laboratory. Similarly, an organisation can grow by expanding its scale of operations or through acquisitions and managers. Technical feasibility, economic viability and the impact on the society are the general thumb rules to select the course of action. The alternative courses are evaluated the light of the premises and the overall goals of the organisation.

**(e) Derivative plans**

The plan thus decided after a through analysis of various alternatives suggests the proposed course of action. To make it operational, it has to be split into departmental plans. Plans for the various operational units within the departments have to be formulated. The plans thus developed for the various levels down the organisation are called derivative plans. For instance, production and marketing of 10,000 units of a product and thus achieving a return of 10 percent on the investment may be the enterprise's plan relevant for the whole organisation. Its effective execution is possible only when specific plans are finalized for the various departments like production, marketing, finance, personnel and so on with clear-cut objectives to be pursued by these departments.

**(f) Review periodically**

Success of the plan is measured by the results and the ease with which it is implemented. Therefore, provision for adequate follow-up to determine

compliance should be included in the planning work. To make sure that the plan is contributing for the results, its review at regular intervals is essential. Such a review helps in taking corrective action, if necessary, when the plan is in force.

#### ACTIVITY – C

Explain the steps involves in a systematic planning

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#### LIMITATIONS OF PLANNING

Effective planning is not an easy task. There are a number of reasons for failure of planning in practice. Planning suffers from the following limitations.

##### 1. Costly and time Consuming

Planning is quite a costly and time consuming process. Unlimited amount of time is spent on forecasting, evaluating alternatives etc. By the time a plan is established the environment might change and this requires a complete revision of the plan. Besides this, cost also increases.

##### 2. Depends on forecast

Planning is future oriented activity which is based on forecast. As the period of planning increases the accuracy of forecasting, diminishes. Planning loses its value if reliable and adequate data is not available.

##### 3. Inflexibility

Planning becomes rigid at times because of internal inflexibilities. This reduces individual initiative and causes delay in decision making. Internal inflexibilities like rigid policies and procedures and limited resources affect planning process.

##### 4. Influence of External Factors

External factors beyond the control of an organisation affect the effectiveness of planning. These are very difficult to predict and this makes execution of plans very difficult. External factors like government control, technological change and trade unions affect the planning process.

##### 5. Resistance to change

Another important limitation of planning is resistance to change. The human element in an organisation always resist change, they are more concerned about the present rather than the future, which is uncertain. Planning being forward looking is always affected by this resistance to change.

##### 6. Not formulating correct plans

The entire planning process may fail, if people involved in it do not formulate correct plans. The reasons for failure of people in planning may be due to a number of reasons like, lack of commitment to planning, lack of delegation of authority, excessive reliance on past experience, tendency to overlook premises etc.

It is an irony that at times even the best of the plans may flounder inspite of careful analysis and mental commitment. So as to avoid the pitfalls in planning, make sure of the following;

- ❖ Set realistic and achievable goals;
- ❖ Communicate the assumptions on which plans are formulated to all the people and departments concerned;
- ❖ encourage and make people participate in the planning programme so as to ensure the right commitment;
- ❖ ensure proper coordination between the short-term and long-term plans.

They should not be viewed as mutually exclusive;

- ❖ encourage creativity in planning. Creativity helps in identifying the best alternatives; and
- ❖ pay attention to the resources position of the organisation so as to ensure the availability as and when required.

### Characteristics of a Sound Plan

*A sound plan should have the follows characteristics:*

**(a) Primacy.** Planning is an important managerial function that usually precedes other functions. Obviously, without setting the goals to be reached and the lines of actions to be followed, there is nothing to organize, to direct, or to control in the enterprise. But this should not lead us to think that planning is isolated from other managerial functions which have no impact on it.

**(b) Continuity.** Planning is a continuous and never-ending activity of a manager to keep the enterprise as a going concern. One plan begets another plan to be followed by a series of other plans in quick successions. Actually, a hierarchy of plans operates in the enterprise at any time. Planning gets used up where tomorrow becomes today and calls for further planning day in and day out. Again, the incessant changes make replanning a continuous necessity.

**(c) Flexibility.** Planning leads to the adoption of a specific course of action and the rejection of other possibilities. This confinement to one course takes away flexibility. But if future assumptions upon which planning is based prove wrong, the course of action is to be adapted to the altered situations for avoiding any deadlock. Accordingly, when the future cannot be moulded to conform to the course of action, the flexibility is to be ingrained in planning by way of adapting the course of action to demands of current situations.

**(d) Unity.** Planning is made by different managers at different times. Maintenance of consistency or the unity of planning is one of its essential requirements. Objectives provide the common focus for unifying managerial action in planning. Moreover, policies and procedures introduce a consistency of executive behaviour and action in matters of planning.

**(e) Precision.** Planning must be precise as to its meaning, scope and nature. As guides to action, planning is to be framed in intelligible and meaningful terms by way of pinpointing the expected results. According to the capacities and facilities of the company, planning must be realistic in scope rather than dreams indicating pious desires. As planning errors are far more serious than mistakes in other functions and cannot be offset by effective organizing or controlling, the planning precision is of outmost importance.

**(f) Pervasiveness.** Planning is a pervasive activity covering the entire enterprise with all of its segments and every level of management. Planning is not exclusive responsibility of top management only, but it extends to middle and lower management as well. Although top managers are mostly preoccupied with planning work because of their wide jurisdiction of operation and decision making, planning is of equal necessity to every manager. Further, there is nothing to choose between a large firm and a small firm so far as the planning process is concerned.

### Activity – D

Give a brief note on the characteristics of a sound plan.

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**Long range planning and short range planning**

Planning implies looking into the future. Since it involves deciding a future course of action, plans always have some time frame-the period in future that a plan covers. Based on the length of time involved, plans are usually classified as strategic range and operational plans or short range plans are designed to meet the broad objectives of the organisation to implement the mission that provides justification for the organisation's existence. Operational plans provide details as to how strategic plans will be accomplished. However, it must be remembered that both strategic and operational plans are not mutually exclusive, but are complimentary. We will first discuss strategic planning and then proceed to operational planning.

**Long Range Planning / Strategic Planning**

The terms long range planning, Strategic planning, and Corporate planning are used synonymously by many authors. Strategic planning has its origin in military organizations where the objective is to envisage a variety of contingencies that may arise when large forces move into operation. Viewed in this backdrop, strategic planning in a business organisation envisages a comprehensive study of the various external and internal parameters that affect a company in charting a course of action to achieve the goals.

**Strategic planning helps the management in;**

- ❖ coping effectively with future contingencies.
- ❖ Providing an early opportunity to correct mistakes.
- ❖ Making decisions about the right things at the right time: and
- ❖ Understanding what actions to take in order to shape the future as consired.

George Steiner has defined strategic planning as the process of determining the major objectives of an organisation and the policies and strategies that will govern the acquisition, use and disposition of resources to achieve those objectives". Strategic plans reflect the socio-economic purpose of the organisation and the values and philosophy of the top management. In simple, they relate the organisation to the environment in which it operates by providing answers to the basic questions like:

- ❖ Where are we now?
- ❖ Where do we want to go? And
- ❖ Why do we want go?

Organisations in the west have been exposed to the strategic planning since long. In India, many subsidiaries of the multinational corporations made a beginning in this direction. Other Indian companies (Private and public sector) have also realized the importance of strategic planning, thanks to the changed realities in the last few years. As a result, every company has now begun to speak in terms of corporate mission, strategic planning and organisation vision. These have, of late, become pet phrases of the Indian corporate sector in 1990's strategic planning serves the following two functions;

**a. Anticipates future opportunities and threats**

An accurate assessment of the future opportunities and threats is crucial to the success of any business. Business environment is changing so fast these days that a deliberate corporate effort is called for to keep abreast with the changes. The changes that occur may be precursors of future threats and opportunities. The investment in large business enterprise today runs into hundreds of crores of rupees. The gestation period is too long. During this period many things may change. Take for instance, the case of the Enron Power Project in Maharashtra.

The agreement to construct a mega power project was entered into by the U.S Enron power corporation and the then Maharashtra government. The company also commenced the work. In the meantime, the change in the state government resulted in the reversal of the earlier government's decision, causing lot of embarrassment to the parties involved. This case demonstrates the need for close monitoring of the potential threats in the environment.

Effectiveness of the business organisation lies in converting the threats into opportunities. For instance, when the crude oil prices were hiked in 1973 by the OPEC countries it created a havoc on petro-based industries. Automobile companies as a result were forced to change to small fuel efficient cars. In this case, the threat was converted into an excellent opportunity. Small car, thus has become the fashion of the day. Similarly ITC in India, continuously hounded by excise levies and taxes on their main product, cigarettes – had to think of diversification into hotels, paper, agro products and aquaculture – which ultimately turned out to be a God sent opportunity.

#### **b. Provide Clarity of Purpose and Direction**

As a result of the overall increase in the size of companies, the internal departments (production, marketing, finance, personnel etc.) have also become quite large. With growing specialization in each of these areas, these departments are prone to become watertight compartment giving rise to inter-departmental rifts.

Corporate strategies spelt out clearly help in smoothening out some of the interdepartmental conflicts. Strategic planning provides unity of purpose and direction, the much emphasized management principle.

It is not unusual, for instance, for marketing department to ask the production department to shorten their productions runs, to cater to the demands of various models which is normally resisted by the latter. Similarly, the design

department may often specify certain change in the product which may raise the cost of production. The finance department may try to block any measure that increases the cost of production.

The process of strategic planning in any organisation is similar to the general planning process which has been discussed in Lesson – 3 However, the emphasis on strategic planning is more on long-term objectives rather than the day-to-day operational aspects. The objective is to keep the firm afloat in the long-run in the light of several uncertainties. The following are the important steps in the process of strategic planning;

- ❖ deciding the corporate mission and broad objectives;
- ❖ gathering the relevant information and analyzing it;
- ❖ conducting a resources audit (analysis of strength, weaknesses in the light of the opportunities and threats) – popularly known as SWOT analysis;
- ❖ identifying strategic alternatives; and
- ❖ making the choice (selection of the right strategy).

The manager's success lies in understanding the trend in the environment. The trends contain signals and give clues about the potential opportunities and impending threats. Many organizations have paid a heavy price for their failure to draw the right meanings from the signals. In some cases, though the management is aware of the trends, a fixed mind set or resistance to change make them cling to the status-quo.

Take the case of the public sector giant, HMT which prided itself, for a long time on its dominance in the Indian wrist watch market. The company was on a high tide for a long time and failed to understand the shift in the consumer preference towards the more trendy, sleek quartz watches. It was so complacent

that it took the market for granted. In the meantime much of the HMT's traditional markets have been captured effortlessly by TITAN. TITAN with its innovative marketing strategies has, no doubt, changes the face of the Indian watch market. This is only one or the several examples of failures in strategic planning in the contemporary business world.

Political, economic, sociological and technological changes in the environment are so extensive and affect so many activities of an enterprise. Failure to read the changes and complacent attitude on the part of management costs the firm dearly. There are numerous examples, where yesterday's leaders have become today's non-entities solely because of their failure to adapt to the changing realities.

#### ACTIVITY – E

What are the functions of strategic planning and Explain the steps involved in strategic planning.

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#### Short range planning / Operational planning

Strategic planning is the prerogative of the top management which is the highest policy making body in any organisation, whereas operational planning is done at the lower levels. Strategic planning is mostly concerned with the “why” of the things, whereas operational planning is concerned with the “How” of the things. The focus in strategic planning is on long-term, while it is on short-term in operational planning. Further, planning is less detailed in the former because it is not involved with the day-to-day operations whereas it is more detailed in the latter. Considering its nature, operational planning is also called tactical

planning.

However, Operational plans stem or originate from strategic plans. In other words, strategic planning provides guidance and boundaries for operational planning. Effective management, therefore, must have a strategy and must operate on the day – to – day level to achieve it. Both should not be viewed as mutually exclusive because operational planning identifies the major activities to achieve the objectives of strategic planning. For example, if the strategic plan is to face competition with new and innovative products, major tasks to achieve this goal would be clarified by operational planning. The possible tasks at the operational level include:

- ❖ strengthening the research and development department;
- ❖ motivating the people to work on new products; and
- ❖ creating a climate in the organisation where people are willing to take risks.

#### TYPES OF PLANS

Different types of plans are developed by an organisation, namely mission, strategies and policies, procedures, rules, programmes and budgets. One common thing is, they all refer to a future course of action. However, some variances in respect of the scope and operation are found in the implementation. Some are single-use plans while some are standing plans. They are discussed below:

##### Mission or Purpose

Organisations exist in society. Therefore, it is appropriate to relate their existence to society by satisfying a particular need of the society. Mission may be defined as “a statement which defines the role that an organisation plays in the society”. The terms ‘mission’ or ‘purpose’ are often used interchangeably.

An organisation's mission statement includes its philosophy and basic purpose for which it exists. It establishes the values, beliefs, and guidelines that the organisation holds in high esteem. Mission statement suggests how an organisation is going to conduct its business. It defines the basic intentions of the firm. A Clear definition of 'mission' or 'purpose' is necessary to formulate meaningful objectives.

Answers to two important questions are provided by the mission statement; what is our business? and what should it be? These questions force the management to define their customers and their needs.

### **Policies**

Koontz and O'Donnel define policy as "a general statement of understanding which guides the thinking and action in decision-making. Policies provide the framework within which managers operate. Policies exist at all levels in the organisation. Some may be minor or derivative policies affecting the whole organisation, while others may be minor or derivative policies affecting the functioning of department or sections within the departments.

A policy is considered to be a guideline for action. Policies may be very clear and explicit. Good policies are flexible, easy to interpret and consistent with overall objectives of the organisation. Policies are laid down by the management for all the important functional areas. As such, we hear about production policies, financial policies, marketing policies and personnel policies, to mention a few. For instance, in the personnel area, specific policies may be formulated for recruitment, training, compensation, etc. Accordingly whenever the need for recruitment arises, the personnel manager consults the existing recruitment policy of the company and initiates the steps necessary to fill the vacancies. Thus it is evident that the personnel manager operates within the broad policy of the company in recruiting the people. Thus, policy is a one

time standing decision that helps the manager in making day-to-day decisions in their operational areas.

### **Procedures**

Policies are subdivided and stated in terms of procedures. (A series of related steps or tasks to be performed in a sequential way). For example: A company's policy may be to sell the obsolete products at a discount. The procedure may explain how to decide which product is obsolete and what percentage of discount is to be offered. But procedures, if simple and clear would ensure order in the performance of operations. Though procedures exist at all levels in an organisation, they are more detailed at the lower levels. In common parlance, they are called 'Standard Operation Procedures' (SOPs),

Procedures for placing orders for material and equipment, for sanctioning different types of employee's leave, for handling grievances at the shop floor level, etc., suggest how each of these has to be handled. Policies and procedures are closely interrelated. For instance, a company may follow time-bound promotion policy to promote people from within. But the operational part of the policy is specified by the procedure – the formalities to be fulfilled to effect the promotion are dictated by the procedure.

### **Rules**

A rule is also a plan. A rule is a prescribed course of action that explicitly states what is to be done under a given set of circumstances. Rules are plans in that they suggest the required actions. A rule requires that a definite action has to be taken in a particular way with respect to a situation. Some definiteness is associated with rules. For example, 'no smoking' is a rule. The essence of the rule is that it reflects a managerial decision that certain actions be taken – or not be taken.

Rules should not be confused with policies and procedures. Policies contain some operational freedom or discretion while rules allow no discretion in their application. Similarly, procedures though different from rules may contain rules. For example, there may be a procedure to enable customer grievances in respect of post-sale service. The procedure may contain a rule that free service is available only for a period of two years after the sale.

### **Programmers**

A programme is a broad term which includes goals, policies, procedures, rules and steps to be taken in putting a plan into action. Terry and Franklin define programme as “a comprehensive plan that includes future use of different resources in an integrated pattern and establishes a sequence of required and time schedules for each in order to achieve stated objectives”. Thus, a programme includes objective, policies, procedures, methods, standards and budgets. For instance, launching Prithvi” satellite is a programme. Jawahar Rojgar Yojana” is a programme. The essential ingredients of any programme are time phasing’ and budgeting. It implies that specific dates are prescribed for the completion of various phases of a programme. Adequate budgetary provisions are made for financing the programme. Programmes may be major or minor. For instance, a company may embark upon modernisation programme of the plant and machinery and other manufacturing systems in a big way. By all means such an effort is a major programme. Similarly, a large organisation may start computerizing all its activities. On the other hand, modernisation of small equipment in some section of the factory and computerization of a particular operation in a certain department may be considered as minor programmes.

### **Budgets**

A budget is a plan statement for a given period of time in future expressed in financial or physical units. Budget contains expected results in numerical terms.

A budget is a quantitative expression of a plan. Organizational budgets vary in scope. Master budget which contains the consolidated plan of action of the whole enterprise is in a way the translated version of the overall business plan of the enterprise. Similarly, production budget represent the plan of the production department. Again, capital expenditure budget, raw material budget, labour budget, etc. are a few minor budgets in the production department. One of the advantages of budgets is they facilitate the comparison of actual results with the planned ones by providing yardsticks for measuring performance.

### **SELF ASSESSMENT QUESTIONS**

1. What is planning? Explain the purpose and principles of planning.
2. Explain the steps involved in planning.
3. What are the characteristics of a sound plan?
4. What are limitations of planning?
5. What are the different types of plans? Explain them.

### **FURTHER READINGS**

1. Terry, George and Franklin, Stephen, ‘Principles of Management’, All India Traveller Book seller, New Delhi, 1988.
2. Steiner, George A, ‘Top Management Planning’ Macmillan, New York, 1969.

## LESSON

## 4

## MANAGEMENT BY OBJECTIVES

## LESSON OUTLINE

- Objectives
- Process of MBO
- Pre requests of MBO
- Advantages of MBO
- Reasons why MBO Fails
- Types of policies
- Principles of policies
- Policy formation
- Strategies
- Appropriateness of Business strategy

## LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ familiarise yourself with the process of MBO
- ❖ understand the usefulness of MBO as a managerial tool.
- ❖ understand the sources of policies
- ❖ acquaint with the formulation of policies.
- ❖ explain the appropriateness of business strategy

## INTRODUCTION

Management guru Peter Drucker is credited with being the first to introduce MBO as an approach for increasing organizational effectiveness. He observes that every manager, from the highest to the lowest levels in the organisation, should have clear objectives to pursue. According to him, such a process would enable each manager to have a clear understanding of what the organisation expects of him or her and how their individual objectives are integrated with the overall organizational objectives. George Odiorne has done substantial research work on MBO and further popularized the concept.

To quote George Odiorne, “MBO is a process whereby the superior and subordinate managers of an organisation jointly identify the common goals, define each individual’s major areas of responsibility in terms of the results expected of him, and use these resources as guides for operating the unit and assessing the contribution of each of its members”.

Different goals are sought to be achieved by the introduction of MBO in organizations. MBO, as a management tool, thus, is so versatile that it is used;

- ❖ to integrate the organizational goals with the individual goals;
- ❖ as a motivational technique wherein individuals are driven towards the achievement of goals;
- ❖ to appraise the performance of managers involved in the process; and
- ❖ to control the activities as they are performed.



Drucker suggests that objectives are to be specified in the key result areas of business (KRAs). A key result area may be understood as one, the performance of which, directly and vitally affect the success and survival of the business. accordingly, for a manufacturing firm production, productivity, profitability, market share, social responsibilities, employer and employee relations, manager and worker development, development of physical resources, constitute the important key result areas.

It may be understood that the KRAs vary from business to business. Since MBO involves a systematic effort towards the achievement of objectives, utmost care has to be exercised in setting the objectives for all the key result areas.

## OBJECTIVES

‘Objectives’ are the end-points of management action. They provide meaning to the existence of an organisation. Objectives are the specific targets to be achieved by an organisation. Therefore, the objectives. They are the end-points towards which all management activities like organising, staffing, directing and controlling are directed. In other words, only after defining the basic objectives for which an organisation exists, can the manager determine the kind of organisation, the type of personnel and their skills, the kind of motivation and direction and the nature of control techniques which may be employed to achieve the ends.

1. **Objectives may be tangible or intangible**, in that certain of the objectives may be expressed in quantitative terms. For example, in the areas of market standing, productivity and physical and financial resources quantification is possible. On the otherhand, worker’s morale, social responsibility, etc. cannot exactly quantified. However objectives in the latter category may be expressed in qualitative terms. Thus,

quantitative objectives are gauged by ‘how much’ while qualitative objectives by ‘how well’. Accordingly, objectives may also be classified under ‘quantitative’ and ‘qualitative’ objectives.

2. **Objectives have hierarchy**, in that objectives that have wider scope and are relevant for the whole organisation are known as enterprise objectives. These objectives are split into unit level or departmental objectives. Thus, objectives at all levels in the organisation are interrelated and form a network.
3. **Short-term and Long-term Objectives**: Short-term objectives are those which are sought to be achieved by the organisation in the immediate future, while long-term objectives are those which are aimed to be achieved over a long period, say five to ten years or even more. However, both are not mutually exclusive and rather are interrelated.
4. **Objectives sometimes may be in conflict with each other**: the goals of the various departments at times may clash, in that, each department considers that its goals are more important. For example, the production goal of low unit cost achieved through mass production may be in conflict with the sales goal of offering high quality goods. Such conflicts have to be resolved amicably.

## ACTIVITY - A

Briefly explain objectives and describe their characteristics.

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PROCESS OF MBO

Having understood the basic characteristics of the objectives, let us examine the process of MBO. As a process, management by objectives begins at the top of the organisation with the establishment of specific organizational objectives. Subsequently, objectives at the various other levels down the hierarchy are decided by mutual discussions and consultations by both superior and subordinates.

*The process of MBO includes the following steps.*

- ❖ establishment of goals for the whole organisation,
- ❖ preparation by subordinates, of specific goals within the framework provided by the superior,
- ❖ joint discussion of an agreement upon the goals by the superior and subordinate,
- ❖ joint review of progress at regular intervals in the light of the predetermined goals, and
- ❖ corrective measures, if necessary, as revealed by the review.

In the whole process, setting of goals for the subordinate positions is the crucial step. Unlike in the traditional system where goals are decided for the subordinates by the superiors, in the MBO system, goals are set on the basis of consensus reached in the discussions between superiors and subordinates. They are set in a democratic way. Superiors act as facilitators and create a favourable climate where subordinates freely express their opinions, viewpoints and perceptions about what they believe could be achieved. The process ensures meeting of minds between superiors and subordinates. As a result, there is ample possibility for the subordinates to feel that they are working for their own goals and not for somebody else’s. Consequently, they strive to achieve the goals. As they participate in the goal setting exercise actively, they in turn get motivated to

achieve them. Once they achieve the goals, that contributes for the satisfaction of their ego needs. Thus, MBO serves as a motivational techniques.

ACTIVITY - B

Give the steps in the process of MBO in sequential order

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PREREQUISITES OF MBO

- ❖ MBO is not merely a goal-setting tool. It is a philosophy and has to be understood thoroughly by the managers concerned with achievement of objectives.
- ❖ Top management must be willing to implement the system wholeheartedly. Its support and encouragement are crucial for the success of MBO. The necessary democratic climate has to be created in the organisation for setting the goals in a realistic way.
- ❖ Goals have to be spelt out in specific and clear terms. To the extent possible, they must be made realistic because goals motivate employees towards better performance;
- ❖ The key result areas (KRAs) of the business have to be identified and appropriate goals have to be specified for these areas. All the important areas of the business must be covered with meaningful goals.
- ❖ It has to be realised that MBO which involves goal-setting is not an end by itself. It is only a means to achieve organizational effectiveness. Otherwise, goal-setting becomes the primary task rather than their achievement.

- ❖ Appropriate organisation structure has to be designed with well-understood relationships among people such that every goal becomes some individual's responsibility.
- ❖ Besides clarifying the organizational roles by adopting a suitable organisation structure, attention has to be paid on the resources required by the people to achieve the goals. Otherwise, goals by themselves, however effective they are, do not assure performance. Performance depends on the timely availability of resources. Non-availability or inadequate access to the resources frustrates the individuals concerned with the achievement of goals.

#### **ADVANTAGES OF MBO**

An organisation can benefit in the following ways by introduction MBO.

Following are some of the advantages:

- ❖ Accomplishes consistency in objectives of each department are consistent with the organizational objectives, the possibility for the various department working at cross purposes is very less.
- ❖ Contributes for effective management by providing lot of clarity in the objectives and the organisation that is necessary to achieve them;
- ❖ Forces the management to plan the activities in a systematic way.
- ❖ Facilitates objective performance appraisal. As the goals themselves become the standards against which the actual performance is measured, MBO system itself acts as an effective performance appraisal tool.
- ❖ Contributes for the installation of a democratic and participative setup, very essential for the success of an organisation in a complex

business environment of today. The interaction that takes place between the superiors and subordinates is a good sign of human resource development in the organisation.

#### **REASONS WHY MBO FAIL**

In spite of many advantages, MBO may not be considered as a panacea for all the evils of the organisation. The success of the programme depends on several factors. It may not yield the desired results in some organizations due to the following reasons:

- ❖ Lack of top management involvement and support. For an MBO programme to succeed, it must have the complete support of top management.
- ❖ Lack of understanding of the philosophy behind MBO. MBO programme in some organizations meet the resistance employees because it is imposed on them as 'control device' to curb their freedom.
- ❖ Difficulty in setting realistic and meaningful objectives. Some jobs and areas of performance cannot be quantified and hence are not amenable for objective evaluation.
- ❖ Increased time pressure. To use MBO programme, manager must learn to establish priorities and use the time effectively.
- ❖ Lack of relevant skills. Managers may not have the requisite skills for identifying objectives, communication and interpersonal interaction such as counseling and giving and receiving feedback.
- ❖ Lack of individual motivation. The rewards and incentives for superior performance have to be specified clearly. Ambiguity or uncertainty regarding the outcome of the efforts is one of the reasons for the non-performance.

- ❖ Poor integration with other systems. The objective setting and review phases must be performed in conjunction with other activities such as budgeting, forecasting and the like. Often managers are neither taught how to set the objectives nor familiarized with the various plans and policies of the organisation. In such cases, each department ends up going its own way, and the results are counterproductive to the overall organisation.

## **POLICIES**

Decision-making is the primary task of a manager. While making decisions, it is common that managers consult the existing organizational policies relevant to the decisions. Policies provide the basic frame work within which managers operate. Policies exist at all levels in the organisation. Some may be major company policies affecting the whole organisation while others may be minor in nature affecting the departments or sections within the departments. Thus, policies are, intended to provided guidance to managers in decision-making. It has to be remembered that a policy is also a decision. But it is a one time standing decision, in the light of which, so many routine decisions are made.

## **TYPES OF POLICES**

Polices come into being is an any organisation in different ways. Koontz and O'donnel have classified policies under the following types, based on their source.

### **1. Originated**

Top management formulates policies for the important functional areas of business such as Production, Marketing, Finance, Personnel and so on. The objective is to help the concerned managers in decision making in their respective areas. Thus, originated policies are the result of top management initiative. These policies are formulated in the light of organizational objectives.

They may be broad or specific depending on the centralization or decentralization of authority. If they are broad, they allow the subordinates some operational freedom. On the other hand, if they are specific they are implemented as they are.

### **2. Appealed Policies**

Managers quite often confront with peculiar situations as to whether they have the authority to take a decision on a particular issue or problem. The policies regarding some issues may be unclear or may be totally absent. There may not be precedents to guide the manager. In such a case, he appeals the matter to his superiors for their thinking. Thus, appeals are taken upwards till they reach the appropriate level in the hierarchy. Depending upon the nature of issues involved, after a through examination, policy decision would be taken at the appropriate level. The decision taken by the higher-ups, thus becomes a policy. For example, during festival seasons, the manager at the branch level may be in a dilemma to offer discount to the customers. There may not be any explicit policy to guide him. But to meet competition in management, on the basis of an appeal made by the branch manager may allow him to offer discount on such occasions. Unless otherwise stated, it becomes an unwritten policy and guides the manager's decision making in all such future situations.

### **3. Implied Polices**

In some cases, there may not be specific policies for all the contingencies. Managers draw meanings from the actions and behaviour of their superiors. For example, if customer service in on top of the agenda of the organisation and if such a philosophy is constantly reinforced by the actions of top management from time to time, a manager may go all out to help a customer who is in a

difficult situation. There may not be any objection from the top management to the stand taken by the lower level manager in support of the customer. Though there is no explicit policy, managers may assume it in a particular way and go about in their day-to-day operations.

#### 4. Externally Imposed Policies

These are the policies which are not deliberately conceived by the managements. They are rather imposed on the organizations by the agencies in the external environment like government, trade unions, industry association, consumer councils, etc. these agencies, to protect the interests of the respective groups may lay down certain policies to be followed by the business. As the interaction of the business with external environment is increasing, one can find many policies thus coming into being in any modern business. For instance, the recruitment policy of the organisation is influenced by the government's policy towards reservations to weaker sections. Anti-pollution measures, concern for the quality of the product and customer service also fall in this category.

#### ACTIVITY – C

Write the classification or types of policies

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#### IMPORTANCE OF POLICIES

##### Furnish the Framework for decisions

Policies provide the broad framework within which decisions are made. In the absence of appropriate policies, managerial decision-making may be analogous

to “Reinventing the Wheel” every time. For example: a policy on internal promotions greatly helps the manager in filling the vacancies. Whenever vacancies arise, he simply goes by the existing promotion policy of the organisation. Sound policies, thus save lot of time in decision-making and avoid confusion.

##### Assure Consistency in Operations

Policies specify the boundary conditions of decisions. Thus, when decisions are actually made, they conform to the policy relevant to the decision. If the policy of an organisations is to face competition with quality products, the emphasis naturally will be on issues relating to improving the quality of the product. All the decisions that affect the product quality are normally taken in the light of the explicit policy. Policies developed carefully and understood perfectly result in consistency in planning.

#### PRINCIPLES OF POLICY MAKING

Policies help to ensure that all units of an organisation operate under the same ground rules. They facilitate coordination and communication between various organizational units. This is possible because policies make consistency in action possible. In view of the importance of policies in guiding executive behaviour, they have to be formulated carefully. In fact, policy formulation is one of the important executive responsibilities. Effectiveness of policies, therefore, lie in understanding the following principles underlying policy formulation.

##### 1. Define the Business

The two fundamental questions to be asked in this regard are what is our business? what should it be? Many business have failed because they did not attempt to seek answers to these simple and basic questions. Gramophone record

companies for long, did not realize that they are in the entertainment business. hence they are now here in the corporate history. In contrast, Hallmark Incorporation of USA defines its business as “social expression” and not as greeting cards. Such a definition helped the company a lot in expanding operations in the related fields like personal accessories and women’s jewellery, etc. To define the business, a company must take a close look at its basic operations and analyse it’s major strengths and weaknesses in all the functional areas like marketing, product development, finance and public relations. Such an exercise enable the enterprise to capitalist on its strengths while overcoming the weaknesses.

## **2. Assess Future Environment**

A realistic estimate of the future trends in matters relating to technology, economic and market conditions, political stability, etc., is essential for policy formulation. As many people would agree, forecasting is a difficult task. Instances are not rare, where the best of the forecasts turned out to be just intentions. That is why, for some managers, forecasting is a highly unpleasant task. It is interesting to note that sometimes products which were predicted to be instant failures by the so called market surveys proved to be run-way successes. The ‘sintex’ water tank is a classic example where the product defied the gloom predicted by the experts. However, examples of this sort are few and far between. On the otherhand, quite the opposite is also possible.

## **3. Ensure availability of Resources**

While formulating policies the resources required to implement the policies have to be assessed. If policies are formulated without regard to the ground realities, you would encounter too many problems while implementing the policies. As a result, policies do not serve the intended purpose. For example, if the policy of

the organisation is to cash in on the new opportunities, if does not mean that you can enter any field thrown open by the government. You have to assess yourself as to how strong you are in terms of resources required. Otherwise it amounts to overstretching. That is how, “close to the knitting”, building on “core – competencies” are very much emphasized these days.

## **4. Communicate the Policies**

if policies are to serve the desired purpose, they have to be communicated to all those who are to implement them by taking appropriate decisions at the operational level. The policy of the organisation towards competition, for instance has to be communicated to the people in the marketing department. Otherwise there will not be proper synchronization between the policy and action.

## **POLICY FORMULATION**

As mentioned earlier, the basic intention of policies is to help executive thinking in decision-making. Policies are formulated for all the key functional areas of business like production, marketing, finance, personnel and so on. Effectiveness and consistency of decisions in all these area depended on how well the polices are formulated and understood. A policy is a plan. Therefore, the steps involved in policy formulation are similar to the steps in planning. Though policies vary, in respect of scope, the process of policy formulation usually involves the following steps.

### **a. Corporate Mission**

Corporate mission specifies the purpose for which the organisation exists. It relates the organisation to the environment in which it operates. It is natural, therefore that all the activities of the organisation are geared towards the achievement of the mission. The mission statement provides the direction to the



organisation. As such, thorough understanding of the corporate mission is the starting point for policy formulation.

#### **b. Appraisal of the Environment**

Environment appraisal in a systematic way is the key for successful formulation of the policies. Correct appraisal of the environment enable the organisation to integrate its activities with the needs of the society. As such, the nature of the environment, the various dynamics of its have to be analysed. It included collection of relevant information from the environment and interpreting its impact on the future of organisation.

#### **c. Corporate Analysis**

While the focus in environmental appraisal is on the internal factors of the business, corporate analysis takes into account the internal factors. Corporate analysis discloses strengths and weaknesses of the organisation and points out the areas that have potential. This is an inward looking exercises.

#### **d. Identification of Alternatives**

The above two steps – Environmental appraisal and Corporate analysis popularly know as SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis will help identifying the alternative policies. For example, the objective of the organisation is expansion. This may be achieved by several ways. Diversification of the activities, acquisition of existing organisations, establishment of subsidiaries abroad and so on. Again, if diversification is chosen, it has to be decided whether it is into related or unrelated business. The alternative policies thus identified have to be evaluated in the light of the organizational mission and objectives.

#### **e. Choice of the Right Policy**

This stage involves choosing the right policy from among the several policy options that suits the organizational objectives. The Corporate history, personal

values and attitudes of the management and the compulsions in the environment, if any, influence the choice of the policy.

#### **f. Policy Implementation**

Effective implementation of the policy requires designing suitable organisational structure, developing and motivating people to contribute their best, designing effective control and information systems, allocation of resources, etc. At times, polices may have to be revised in line with the changes in the environment. Polices have to be monitored constantly during the implementation stage, so that inadequacies, if any may be corrected at the appropriate time.

#### **ACTIVITY - D**

Describe how policies are formulated.

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#### **STRATEGIES**

The terms ‘strategy’ has been adopted from war and is being increasingly used in business to reflect broad overall objectives and policies of an enterprise. In the context of business, strategy refers to the firm’s overall plan for dealing with and existing in its environment. Strategies most often denote a general programme of action and deployment of emphasis and resources to attain comprehensive objectives. Strategies are plans made in the light of the plans of the competitors because a modern business institution operates in a competitive environment. They are a useful framework for guiding enterprise thinking and action. For instance, a company may follow a strategy of charging a lower price or using more sales force than competitors advertising more heavily than competitors.



The purpose of strategies is to determine and communicate, through a system of major objectives and policies, a picture of what kind of enterprise is envisioned. They do not attempt to outline exactly how the enterprise is to accomplish its objectives since this is the task of countless major and minor supporting programmes. But they are a useful framework for guiding enterprise thinking and action. This usefulness in practice and importance in guiding planning do, however, justify their separation as a type of plan for purposes of analysis.

#### APPROPRIATENESS OF BUSINESS STRATEGY

A business strategy is a pragmatic plan of action to achieve certain objectives. To evaluate its appropriateness requires certain criteria. We may identify six criteria to measure the appropriateness of a business strategy:

**1. Internal Consistency.** A business strategy in a particular area of business should be consistent with strategies in other areas and objectives and policies of business. Internal inconsistency in any strategy will create problem in its implementation.

**2. Consistency with Environment.** A strategy is basically an enterprise's response to cope with external environmental variables. Therefore, it should aim at meeting the threats and pressures of external forces.

**3. Appropriateness in the light of available Resources:** Formulation of a strategy requires a realistic assessment of the resources of the enterprise – men, money and materials – both existing resources and the resources it can command. The resources of an enterprise also include the skills of management and other manpower, command over sources of scarce raw materials, production facilities, technology, marketing capabilities and image, and so on. It is desirable that the every enterprise formulates its strategy within the limitations imposed

by its resources. The objective is to ensure that the enterprise's resources are not over-stretched or over-strained on the one hand and to utilize the existing and commendable resources in the best possible manner, on the other.

**4. Acceptable degree of Risk.** Any major strategy carries with it certain element of risk and uncertainty because it covers a long future horizon and because it seeks to cope with complex environment. The degree of risk inherent in a strategy should be within the bearable capability of the enterprise. Resources should not be committed irrevocable, nor they should be concentrated on a single or narrow range of ventures. Also, there should be match between risk and returns, financial and otherwise.

**5. Appropriate Time Horizon.** Time is the essence of any strategy. While a reasonably long time span imparts some flexibility, the problem of forecasting is ever present. How far in the future can top management predict with credibility is a measure of its capability. An optional time span cannot be mathematically determined; it is a matter of environmental conditions, the objectives to be sought and the judgment of management.

**6. Workability:** A strategy should be feasible and produce desired results within the constraints and parameters known to management. It should be realistic and relatively simple to understand in interpretation and implementation. Certain quantitative measures like volume of sales and profit, growth rate, asset formation, market share, introduction of successful new products and so on, are to be set. These are to be combined with qualitative criteria like the degree of confidence with which managers implement the strategy, the extent to which major areas of decision situations are handled by reference to the criteria embedded in the strategy, the extent to which opportunities are exploited, threats averted, resources mobilised, and environmental control gained.

**SELF- ASSESSMENT QUESTIONS**

1. What is the nature of objectives?
2. Explain the process of MBO.
3. What is the importance of policies?
4. Explain how policies assure consistency in decision-making.
5. What are the important steps in policy formulation? Explain.
6. What strategy? Explain the appropriateness of business strategy.

**FURTHER READINGS**

1. Dale, Earnest, Management: Theory and Practice, Mc Graw-Hill, New York, 1973.
2. Drucker, Peter F, Management: Tasks, Responsibilities, practices, Harper & Row, New York, 1974.

**KEY TERMS**

- |                     |                        |
|---------------------|------------------------|
| ❖ MBO               | ❖ Imposed Policies     |
| ❖ Objectives        | ❖ Corporate Mission    |
| ❖ Policy            | ❖ Programmed Decisions |
| ❖ Appealed Policies | ❖ Strategic Decisions  |
| ❖ Implied Polices   | ❖ Group decisions      |

**LESSON****5****DECISION MAKING****LESSON OUTLINE**

- Decision – Making process
- Types of Decisions
- Decision making process
- Techniques of Decision Making.

**LEARNING OBJECTIVES**

*After reading this lesson you should be able to*

- ❖ understand the meaning and characteristics of decision making
- ❖ explain the types of decisions
- ❖ examine the process of decision making
- ❖ understand the techniques of decision making.

## INTRODUCTION

It is said that decisions are the principal diet on which a manager thrives. It is decision-making power which distinguishes a manager from others in an organisation, Hardly a day passes without making some decision or other in the executive's life. Whatever a manger does, he does through making decisions. As such decision-making constitutes the most exciting and eventful part of any modern executive's career. Considering the importance of decision-making some authors even view it synonymously with management.

In the course of managing an organisation, the manager is confronted with several problems which require immediate and appropriate solutions. Such problems are solved by making decisions. For instance, break-down of machinery, customers' complaint on quality, delay in collection of receivables, some industrial relations problem at the shop-floor level leading to unrest among the employes, to mention a few, call for timely solutions. That apart, in some cases, though there is no any problem as such – to improve productivity, market share, profitability, some vital decisions have to be taken. Thus, a manager has to make decisions converging several aspects of the organisation.

## DECISION – MAKING MEANING

Decision-making in simple, may be defined as “the selection of a future course of action from among various alternatives’. Thus it presupposes the existence of various alternatives. It is in a way a choice between alternatives. In other words, if there are no alternatives, there is no choice. Therefore, the question of decision-making and the associated dilemma do not arise. Thus, the following characteristics emerge from the definition of decision-making.

### Characteristics

- (1) Decision making is a continuous process.
- (2) The question of decision-making comes into picture only when there are alternatives.
- (3) Decision making is always purposive, in that decisions should aim at achieving some purposes.
- (4) It is an intellectual process supported by sound-reasoning and judgment.
- (5) Decision-making is all pervasive in the sense that all levels of managers take decisions, though at the impact and scope of decision vary.

The famous decision theorist, Herbert Simon has identified three major steps in the decision-making process. The first step involves the recongnition and understanding of the real problem. In the second phase, various alternatives may be developed. The third step involves careful assessment of alternatives available for taking a better decision.

### ACTIVITY -A

Write the meaning and characteristics of decision making.

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## TYPE OF DECISIONS

Decision taken by managers may be classified under various categories depending upon the scope, importance and the impact that hey create in the

organisation. The following are the different types of decisions that are usually taken by managers in the organisation.

### **1. Programmed and Non-programmed Decisions**

Programmed decisions are normally repetitive in nature. They are the easiest to make. Usually these decisions are taken in consultation with the existing policy, rule or procedure which are already laid down in the organisation. For example: making purchase orders, sanctioning of different types of leave, increments in salary, settlement of normal disputes, etc. Managers in dealing with such issues of routine nature, usually follow the established procedures.

On the other hand, non-programmed decisions are different in that they are non-routine in nature. They are related to some exceptional situations for which there are no established methods of handling such things. For example: Issues relating to how to handle a serious industrial relations problem, declining market share, increasing competition, problems with the collaborator, growing public hostility towards the organisation fall in this category. Problems like these have to be handled in a different way. While different managers reach the same solution in the case of programmed decision, because they are guided by the same policy or procedure, the solutions may widely differ in the case of non-programmed decisions. As one moves up in the hierarchy, many of the decisions that managers make are non-programmed in nature.

It is important to note that the effectiveness of a manager lies in handling exceptional situations. Such situations call for ingenuity and sound judgment. Surprisingly, many managers get bogged down in the routine issues at the cost of the non-routine issues. The saying that “routine drives out the non-routine” instead of the other way round is true in many organizations. Such a tendency results in devoting less time for the important issues.

### **2. Operational and Strategic Decisions**

Operational or tactical decisions relate to the present. The primary purpose is to achieve high degree of efficiency in the company's ongoing operations. Better working conditions, effective supervision, prudent use of existing resources, better maintenance of the equipment, etc. fall in this category. On the other hand, expanding the scale of operations, entering new markets, changing the product mix, shifting the manufacturing facility from one place to the other, striking alliances with other companies, etc. are strategic in nature. Such decisions will have far reaching impact on the organisation. Usually, routine decisions do not need intensive deliberations and huge resources and are taken by managers at the lower levels, while strategic decisions require extensive deliberations and huge resources and are taken by top level managers. The focus in the operational decisions is on the short-run or immediate present, while it is on the long-run in the case of strategic decisions.

### **3. Organisational and Personal Decisions**

Decisions taken by managers in the ordinary course of business in their capacity as managers relating to the organisational issues are organisational decisions. For example: decisions regarding introducing a new incentive system, transferring an employee, reallocation or redeployment of employees etc. are taken by managers to achieve certain objectives. As against such decisions, managers do take some decisions which are purely personal in nature. However, their impact may not exactly confine to their selves and they may affect the organisation also. For example: the manager's decision to quit the organisation, though personal in nature, may create some problems for the organisation.

### **4. Individual and Group Decisions**

It is quite common in organizations that some decisions are taken by a manager individually while some decisions are taken collectively by a group of managers.

Individual decisions are taken where the problem is of routine nature, whereas important and strategic decisions which have a bearing on many aspects of the organisation are generally taken by a group. Group decision making is preferred these days because it contributes for better coordination among the people concerned with the implementation the decision.

Decisions may also be further classified under major and minor decisions and simple and complex decisions. However, a detailed description of these types is not necessary because they are almost all similar to the already discussed programmed and non-programmed decisions in respect of importance and impact.

Rational decision-making process contains the following steps as could be seen in figure.

**a. Define the Problem**

Problem definition is the most crucial step in the entire decision-making process. As the saying goes, “a problem well defined is a problem half-solved, utmost care has to be exercised in this stage, for wrong definition of the problem leads to wrong solutions. This is also called diagnostic stage. Jumping to conclusions on the basis of certain symptoms has to be avoided. The problem has to be examined from different angles so as to identify the exact causes. Unless exact causes are identified, right decisions cannot be taken.

**b. Analyse the problem**

The problem has to be thoroughly analysed. The past events that contributed to the problem, the present situation and the impact of the problem on the future have to be examined. Problems do not crop up overnight. The genesis of the problem and the various contributing factors have to be analysed. In analysing the problem, personal prejudices have to be avoided. As far as possible, an objective assessment of the situation is useful to arrive at right decisions.

Proper analysis of the problem helps the manager to assess the scope and importance of the problem. If the problem is of minor nature, he can authorize his subordinates to solve it. If it is a major problem requiring the involvement of many people, he can initiate the necessary steps. At times, the problem may not warrant any decision. Leaving the problem as it is could be better.

**c. Develop Alternatives**

There are hardly few problems for which there are not many alternatives. Effective decision-making depends on the development of, as many alternative solutions, as possible. The underlying assumption is that a decision selected from among many alternatives tends to be a better one. The ability to identify and develop alternative courses of action depends on the manager's creativity and imagination. As the thinking of two people may not be similar, the skills and abilities in developing alternatives significantly vary from one manager to the other.

**d. Evaluate Alternatives**

The next step in the decision-making process involves evaluation of the alternative courses or solutions identified to solve the problem. Alternatives have to be evaluated in the light of the objectives to be achieved, and the resources required. Evaluation involves a thorough scrutiny of the relative merits and demerits of each of the alternatives in relation to the objectives sought to be achieved by solving the problem.

**e. Select and Implement the Decision**

Scientific evaluation of the alternatives reveals the acceptability of various alternatives. After weighing the pros and cons in detail, the best alternative has to be selected and implemented. It may not always be possible to select the best alternative for a given problem for want of complete information, time and

resources. In such a case, the manager has to satisfy with limited information and optimise the yields under a given set of circumstances.

Once an alternative is selected, that becomes the decision and it has to be implemented in a systematic way. The required resources for the implementation and the necessary cooperation from the people concerned with or affected by the decision have to be ensured. Otherwise, however good the decision may be, it may encounter stiff resistance in the implementation stage.

#### **f. Follow-up and Feed back**

Once the decision is implemented, it has to be closely monitored. Adequate follow-up measures have to be taken. In the course of implementation, so many unexpected events may render the decision ineffective. The decision may not yield the desired results. Constant follow-up helps to take corrective measures as and when necessary. Further, such a follow-up enables to identify the shortcomings or negative consequences of the decision. It provides valuable feed-back on which the decision may be reviewed or reconsidered.

#### **ACTIVITY -B**

Describe the process of decision-making.

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#### **Rationality in decision-making**

Rationality implies that decision-making tries to maximize the values in a given situation by choosing the most suitable course of action. Rationality refers to objectivity in the development of alternatives and the final selection of an alternative to achieve the desired goal. Though it is very much desirable, for a variety of reasons, complete rationality is not always possible. That is the reason why people prefer to take satisfactory decisions instead of ideal or optimum decisions. In reality they confine themselves to a few important alternatives which have limited risks combined with favourable consequences. Following are the major reasons that stand in the way of rational decision-making process:

- ❖ Because of time and cost constraints, all complex variables that have a bearing on decision cannot be examined fully. Hence, the decision-maker is forced to strike a balance between the ideal and real situations.
- ❖ Since decisions are related to future, managers cannot foresee all the future consequences accurately.
- ❖ Human factors like value systems, perceptions, prejudices, social factors, etc., may enter the decision-making process. Managers, being human beings, are greatly influenced by their personal beliefs, attitudes and bias.

#### **TECHNIQUES OF DECISION-MAKING**

Now-a-days, different techniques are used by managers in making decisions. These techniques, if used properly, would contribute for the effectiveness of the decisions. Some of the important techniques are discussed below.

**1. Brainstorming:** Brainstorming is the oldest and widely followed technique for encouraging creative thinking. It was originally developed by A.F. Osborn. It involves the use of a group. The success of this technique lie in creating a free and open environment where members of the



group participate without any inhibitions. It starts on the premise that when people interact in free environment, they will generate creative ideas. Continuous interaction through free discussions may result in spontaneous and creative thinking. The larger the number of solutions, the fairer are the chances in locating an acceptable solution. Established research proves that one hour brainstorming session is likely to generate 50-150 ideas. It is interesting to note that while most of them are proved to be impracticable, at least, some of them merit serious consideration. This group process is not without limitations. It consumes a lot of time and therefore, is an expensive exercise. Secondly, it emphasises only quantity of solutions, which more often than not, prove to be superficial. By overcoming the above limitations, a modern manager can use this as an effective tool.

**2. Synectics:** Synectics is a new concept developed by William J.J. Gordon. The term 'synectics' is derived from a Greek word which means "Fitting together of diverse elements". It starts on the premise that this concept encourages novel thinking for the development of alternatives through putting together different ideas which are distinct from each other. A given problem is presented to a group of people with different backgrounds and varied experiences.

It is the responsibility of the group leader to present the problem and lead the discussion in order to stimulate creative solutions. This approach ensures on the spot evaluation of ideas. The leader who is a technical expert assists the group in evaluating the feasibility of their ideas. Experience shows that synectics is less widely used than "Brainstorming". When the problem is tough and challenging, this approach is used for effective decision-making.

**3. Operations Research:** The origin and development of operations research is attributed to military operations and applications during Second World War. The war put tremendous pressure on the use of available scarce resources for various strategic and tactical operations. The success of operations research in developing effective options is instrumental in making this approach rather dependable in decision-making process. Operations Research employs optimizing models like Linear Programming, Project Management, Inventory Control, Decision Theory and Waiting Line Theory.

Operations Research is the systematic method of studying the basic structure, functions and relationships of an organisation as an open system. It aims at developing optimal solution with limited resources in a given situation. It covers six steps in its approach to problem solving. They are: (a) identification of a problem; (b) construction of a mathematical model to investigate the problem; (c) developing a good solution; (d) testing of the model in the light of the data available; (e) identifying and setting up of control points; (f) implementation of the option as a solution to a critical problem (putting a solution to work). In essence, Operations Research attempts to develop the best solution that will contribute to organisational goals.

#### SELF- ASSESSMENT QUESTIONS

1. What is decision-making? Explain the basic characteristics of decision-making process.
2. What are different types of decisions and explain their managerial implications.
3. Explain steps involved in the rational decision-making process.

#### FURTHER READINGS

1. Terry, George and Franklin, Stephen, 'Principles of Management', All India Traveller Book seller, New Delhi, 1988.



2. Steiner, George A, 'Top Management Planning' Macmillan, New York, 1969.

#### KEY TERMS

- ❖ Decision Making
- ❖ Programmed Decision
- ❖ Strategic Decision
- ❖ Group decision

## UNIT – II

### LESSON

# 6

## ORGANISING: ORGANISATION STRUCTURE AND DESIGN

#### LESSON OUTLINE

- Steps in Organising Process
- Organisation structure
- Chain of Command
- Span of Management
- Functional Departmentation
- Product Departmentation
- The Matrix structure

#### LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ understand the meaning of organising
- ❖ describe the steps in organising process.
- ❖ draw the organisation chart of a typical organisation
- ❖ explain chain of command and unity of command.
- ❖ describe the concept of span of Management.
- ❖ understand the factor that influence the span.
- ❖ Design various organisation structures based on departmentation

## INTRODUCTION

The managerial function 'organising' may be defined as "defining and grouping the activities of the enterprise and establishing authority, responsibility and relationships among them". It results in the creation of a structure most appropriate for the organisation's objectives and other internal and external factors. The best structure is the one that enables the organisation to interact effectively with its environment, to efficiently channelise the efforts of its people, to make efficient use of its resources. Thus, while planning specifies the objectives, organising facilitates the accomplishment of objectives.

## STEPS IN ORGANISING PROCESS

Organising is a multi-step process consisting of the following steps:

1. Detailing all the work that must be done to attain the objectives; (Identification of tasks involved)
2. Dividing the total work load into activities that can logically and comfortably be performed by one person or by group of persons; (this activity is called differentiation)
3. Grouping the related tasks in a logical manner (this activity is known as departmentation);
4. Setting up a mechanism to coordinate the work of members into a unified whole by establishing authority – responsibility relationships, (This involves delegation and decentralisation of authority); and
5. Monitoring the effectiveness of the organisation and making adjustments to maintain or increase effectiveness.

The various steps stated above in organising process results in a structure that facilitates the performance of tasks in a cohesive way. The resulting structure, however, is not a static form, like the structure of a building. Since

structure is based on plans, major revision of plans may necessitate a corresponding modification of structure. As such, organising and reorganising are ongoing processes. Successful organisations continuously assess the appropriateness of their structure and change it in accordance with the dictates of the environment. It is anybody's knowledge that many Indian companies are restructuring their activities to meet the new challenges in the present liberalisation era. Organisation structures are modified periodically in response to the environmental demands. Management expert Tom Peters estimates that about 50 percent of organisation problems arise from inappropriate organisation structure. Because adaptation is a key to competitive survival, the 'right' structure for an organisation is determined by numerous factors. For this reason, selecting an organisation structure might best be described as an evolutionary, trial-and-error process.

## ACTIVITY –A

Write the means of 'organisations'.

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## ACTIVITY –B

What are the steps involved in organising

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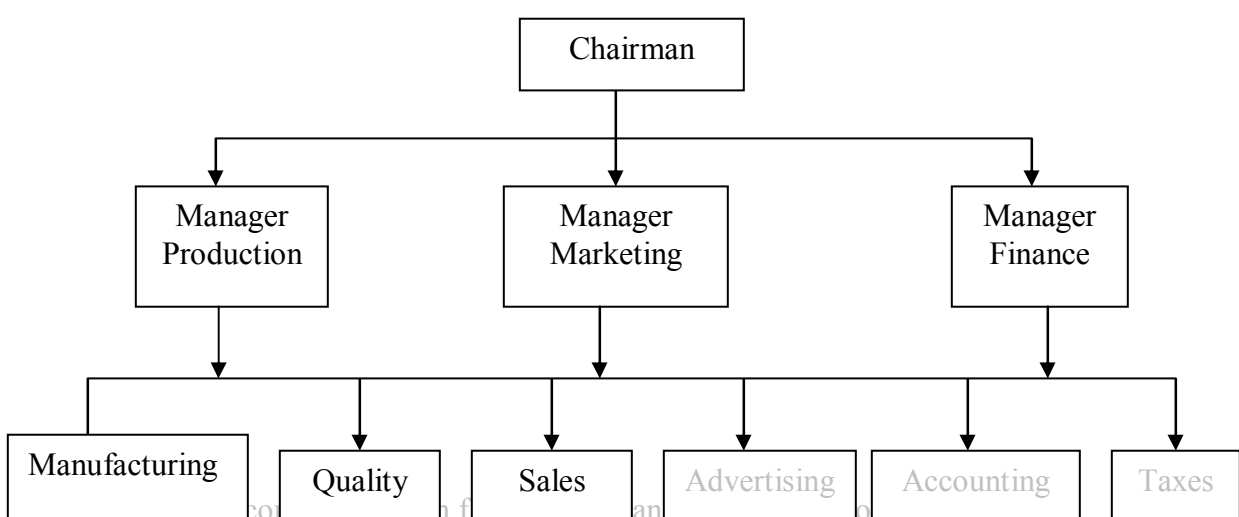
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## ORGANISATION STRUCTURE

Organisation structures is described of the on organisation chart that shows all the positions in an organisation and their formal relationships to one another. It illustrates an organisation's overall shape and the levels of management in a comprehensible manner. The organisation chart of a typical company organized on functional basis is present in figure 6.1.

Figure 6.1 Organization Chart



- ❖ The hierarchical structure that is typical of most organisations;
- ❖ The number of management levels;
- ❖ Scope of authority and status of the individuals as indicated by the location of their positions in relation to other positions;
- ❖ How an organisations activities are groped in terms of departments (whether by function, by territory and so on);
- ❖ The work being done in each positions (indicated by the labels in the boxes);

- ❖ Interaction of people as indicated by the horizontal and vertical lines connecting various positions/departments;
- ❖ Relations between superiors and subordinates-who report to whom, that is, the chain of command;
- ❖ How may subordinates report directly to each manger, that is the span of control;
- ❖ Career progression – routes to the higher levels; and
- ❖ Formal channels of communication (indicated by the connecting lines)

However, an organisation chart does not show:

- ❖ Interactions between people who have no official reporting relationships, that is, the informal organization;
- ❖ The ongoing dynamics of workplace behaviour;
- ❖ Personal preferences and coalitions;
- ❖ Informal communication channels, that is, the grapevine; and
- ❖ Interference by outsiders. The organisation chart of any company enables one to understand easily three classical principles of organising, viz., chain of command, unity of command and span of control.

### Chain of Command

The type of arrangement of various positions in an orderly way is termed scalar chain or chain of command. The chain of command exists whenever one individual is made subordinate to another. Since ancient times, it has been recognized that the only way to structure unified systems involving large number of people is through a chain of command. The resulting hierarchy is found in every company or in any human system including a family. Figure 6.2 depicts the chain of command in a typical manufacturing company. In addition to defining different degrees of authority of people,

Chain of Command also suggests the routes through which information flows within an organisation.

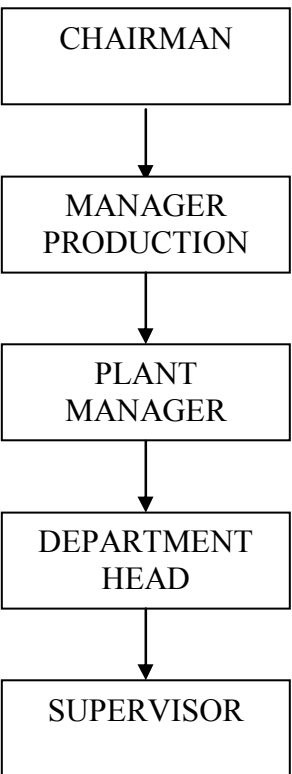


Figure - 6.2

**Unity of Command**

The Chain of Command principle implies another feature of organising: one subordinate-one boss. If the efforts of subordinates are to be effectively coordinated, it is necessary that they must have a reporting relationship with only one superior. Unity of command principle avoids the confusion as to who should report to whom and who should issue orders to whom.

**ACTIVITY –C**

Describe organisation chart.

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**ACTIVITY –D**

What is chain of commend.

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**ACTIVITY –E**

What is unity of command?

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**SPAN OF MANA CEMENT**

It is anybody’s knowledge that a manager cannot effectively supervise the activities of an infinite number of subordinates. This is because of the limitations of time, energy and skills. These limitations place a limit on the number of subordinates that a manager can effectively supervise. But for this limit, organizations would have not taken the pyramid shape. Span of

management refers to the number of subordinates that report directly to a manager. The traditional thinking was that an effective span involved some definite number of subordinates. For example, Lyndall Urwick found “the ideal number of subordinates for all superior positions to be four and at the lower level or organisation, the number may be eight or twelve”. Often, one of the first things done by an organizational analyst or consultant was to count the number of subordinates reporting to each manager. In each instance, when the number exceeded a definite figure, say – six or eight, there would be a recommendation to narrow the span. Thus, the thinking of the classical theorists about the span revolved around a definite number.

#### **Classical Thinking on Span of Control**

The traditional theory of management was much concerned with the specific number of subordinates that could be supervised by a manager. For instance, Lyndall Urwick suggests that no executive should attempt to supervise directly more than five. Different thinkers suggested different spans both at the top and lower levels of organisation.

The contribution of V.A. Graicunas was however, significant to the span of management theory. According to him, in selecting a span, managers should consider not only the direct one-to-one relationship with their subordinates, but also two other kinds of relationships, namely, direct group relationships and cross-relationships. As such, if A has two subordinate B and C, the following relationships would emerge.

*i. Direct one-to-one relationships:* These relationships relate the superior directly with his subordinates, A in this case will have two direct relationships with B and C, viz. A to B and A to C.

*ii. Direct group relationships:* This type refers to the relationship of superior with the various possible combinations of subordinates. In the above example, A may interact with B in the presence of C or with C in the presence of B. Graicunas argues that though the individuals are same, the two situations have different implications.

*iii. Cross-relationships:* This type of relationships are created when subordinates consult one another. In our example, the two cross relationships are B with C and C with B. Graicunas gave a formula to ascertain the number of all the three kinds of relationships:

$$\text{Number of relationships} = n \left[ \frac{2n}{2} + 2 - 1 \right]$$

n stands for the number of subordinates. One can easily ascertain how the number of relationships increases as the number of subordinates rises by applying this formula. With four subordinates, what total relationships go upto 44, with five subordinates to 100, with six subordinates to 222, and with 10 subordinates to 5,210. Though Graicunas formula explains the complexities involved as the number of subordinates increase, it suffers from the following inadequacies.

- ❖ The formula ignores the frequency and importance of relationships, and
- ❖ Several other factors which have a bearing on the superior subordinate relationships have not been taken into consideration while framing the formula.

#### **Span of Management and the Levels**

The limitation on the part of a manager to manage an infinite number of subordinates, obviously results in the levels in the organisation. Thus, an inverse

relationship generally exists between the span of management and number of management levels. That is, if an organisation has wide span, the resulting structure will be flat, with few levels of management. Conversely, if an organisation has narrow span, the structure will be tall, with many management levels.

#### Problems with levels

Creation of too many levels has certain problems relating to the costs involved communication, and managerial control.

*i. Costs:* Levels are costly. Too many levels involve lot of expenditure. Additional facilities in terms of secretarial staff have to be provided besides the pay differentials in the compensation package. In many organisations substantial expenditure has been saved by increasing the span.

*ii. Communication:* Successive layers of management act as communication filters distorting the transmission of information. Experience shows that the greater the number of management levels a message must pass through, the longer it will take to reach its destination. More often, the information also loses clarity. Thus, communication of organizational objectives, plans and policies become difficult. Omissions and misinterpretations usually occur as information passes through too many levels in the scalar chain.

*iii. Managerial Control:* The distance between the top and bottom levels of an organisation also affects control. For example, even the best of the plans which are definite and complete at the top level loses clarity as the plans are sub-divided and elaborated at lower levels. Consequently, at the implementation stage of the plan, control becomes difficult.

#### ACTIVITY –F

What are the steps involved in organising

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#### Organisation Design

The organisations are in different sizes and may be producing single product or multiple products may be operating in small geographic area or different areas in the world. To cope with these varied objectives, strategies and situations, managers adopt different designs of organisation structure.

Departmentation in organisation design is the process of dividing the organisation into manageable subunits. The subunits are often referred to as departments divisions, or sections. By whatever name the units are called, the process is known as departmentation.

#### FUNCTIONAL DEPARTMENTATION

This is perhaps the most logical and simple form of departmentation. Functional departmentation is the process of dividing the organisation into units on the basis of the firm's major activities. It involves grouping employees according to broad tasks they perform. Normally separate departments are created for all the key activities of the business. for example, in a manufacturing company, the activities essential to the existence of the company are production, marketing, and finance. However, in non-manufacturing concerns these functions differ. In a transport company, the key areas may be operations, sales and finance. Thus, public utility concerns like electricity, transport, banking, insurance and hospitals have their own distinct key functional areas. In all these cases, under

functional departmentation, major or primary departments are created along the key functional area of the respective business.

If the organisation or given department is large, or in other words, as the organisation grows, major departments can be subdivided. These sub-divisions are called derivative departments. The essential idea is to take advantage of specialization. A typical functional organisation with major functions and derivative functions already shown in the figure – 5.1.

The following are the advantages and disadvantages of functional departmentation.

#### *Advantages*

- ❖ It is the most logical and simple form of departmentation;
- ❖ It makes efficient use of specialized resources and skills;
- ❖ It makes supervision easier, since each manger has to be an expert in only his functional area of operation;
- ❖ It fosters development of expertise in specialized areas.

#### *Disadvantages*

- ❖ Functional departmentation is often found to be inadequate to meet the growing needs of the business, particularly as the organisation expands or diversifies its activities;
- ❖ Further, decision-making becomes slow as the functional mangers have to get the approval of the headquarters;
- ❖ It is also difficult to determine accountability in a functional structure. If a product fails, the question as to who is responsible cannot be easily answered; and
- ❖ Functional mangers tend to develop narrow perspective and loose sight of the bigger picture. Members of each department feel isolated from those in other departments. For example, manufacturing department

may be obsessed with cost reduction and meeting the delivery dates neglecting the quality control. As a result, marketing department may be flooded with complaints.

#### **ACTIVITY –G**

What is the function departmentation .

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#### **PRODUCT / MARKET DEPARTMENTATION**

As organizations are not static, they grow in size either by broadening its product line, or by expanding geographical. Further, as the size of the organization increases, some of the disadvantages become more apparent. The organization is rather forced to look for other models in tune with the requirements. In such situations, managements will opt for various other types of departments, in focusing on the product or market. Three patterns are adopted generally by organizations depending on the specific requirements to overcome the limitations of functional structure. They are product, territorial and customer departmentation.

##### **i. Product Departmentation**

One of the most common ways in which business grow is by increasing the number of product they make and sell. If the organization is successful, several product lines may attain such high sales that they require a separate division. Large organizations like Kirloskar, Hindustan Level, Shaw Wallace have coped with the expansion of their product lines by creating separate departments or



divisions for the various products. Under product departmentation, a single manager, often referred to as the product manager, is delegated authority over all activities required to produce and market that product. Thus, the forces shift themselves. As against functions in the functional departmentation, basic products or services become the primary or major departments in the product departmentation.

#### *Advantages*

- ❖ Product departmentation places emphasis on the basic products, the success of which is critical to the survival of the organization;
- ❖ Since all revenues and costs are assigned to a particular product, cost centers can be established, high profit areas can be encouraged and unprofitable product lines can be dropped. Thus, responsibility for cost reduction and profits can be established at the division level;
- ❖ Proper coordination of all functional areas can be achieved as all the functional managers work as a team under close supervision of the product manager. Since the department or division is multifunctional, it often operates like a complete company.
- ❖ Enables quick-response to changes in environment as compared with functionally organized firm;
- ❖ Provide managers a training ground in general management which is useful in overcoming narrowness of interest, and
- ❖ Expansion and diversification of activities is made easy by creating new departments for the new products that are added to the existing ones.

#### *Disadvantages*

- ❖ Requires adequate availability of persons with general management abilities as more and more departments are created for the various products;

- ❖ The product departments may try to become too autonomous thereby presenting top management with a control problem;
- ❖ It is also common to find product departments engaged in the duplication of efforts. Each product unit has its own functional departments. These may not be sufficiently large to make maximum use of facilities. Thus product departmentation becomes an expensive organizational form.

#### **ii. Customer Departmentation**

It is common that some organizations sell a wide variety of goods or services that appeal to different groups of customers, each of which has distinguished needs. Each customer group may have to be addressed differently. In such a case, departments are created around customer groups. For instance, commercial banks organize their activities around customer groups to cater to their specific needs. As such, we find separate departments or divisions for agricultural, industrial and merchant banking operations. Similarly, we find Blue Star company organizing its air-conditioning business around domestic and industrial air-conditioning units.

#### *Advantages*

- ❖ Customers departmentation facilitates concentration on customer needs. This is in line with the customer orientation professed by many organizations these days,
- ❖ Customer feel that they have an understanding supplier. For example, the manufacturer may sell to wholesalers and industrial buyers. Wholesaler requires a product of dependable quality with assured supplies. The industrial buyer wants product of high quality plus a service that includes installation and repair of the product and the specific training of employees.

- ❖ Helps the organization to get the correct feel of the market dynamics in terms of preferences of the customers, competitors' strategies, etc.

#### *Disadvantages*

- ❖ Difficult to coordinate operations between competing customers' demands;
- ❖ Requires considerable expertise on the part of managers in understanding customers' problems and specific needs;
- ❖ There is a possibility of under utilization of facilities and employees specialized in terms of customer groups. Small organizations particularly can not afford the expenditure involved because some amount of duplication of the facilities is inevitable.

### iii. Territorial Departmentation

The process of creating departments along the geographical lines is termed territorial departmentation. This method is adopted when an organization operates in different geographical area, each with distinct needs. Territorial Departmentation makes it easier for the organization to cope with variations in laws, local customs and customer needs. Public utilities like transport companies, insurance companies, etc. adopt territorial departmentation. Similarly, a large scale organization operating both in domestic and international markets may have separate departments for both the markets. Again, different departments or divisions may be created for different regions of the world. Many multinational companies organize their global activities with regional headquarters in different regions of the world.

#### *Advantages*

- ❖ Territorial departmentation makes possible concentration on markets and marketing channels in different geographical areas;

- ❖ Develops opportunities for more efficient marketing activities because of better face-to-face communication with local interest and
- ❖ Makes possible effective utilisation of locally available resources besides being able to cater to the region-specific variations in terms of preferences and sentiments of the people.

#### *Disadvantages*

- ❖ In this type of departmentation, there are problems in training people to think in terms of markets rather than products;
- ❖ Requires more persons with general management abilities; and
- ❖ Increases problem of top management control because of the distance between the corporate headquarters and the regional offices.

The three patterns of departmentation discussed above – product, customer and territorial departmentation broadly characterize the divisional structure. All the three patterns have advantages and disadvantages. The choice of any of these structure, therefore, would be based on which of the factors management judges to be more important and critical in the light of the strategies and objectives.

### ACTIVITY –H

Describe product departmentation

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### Project Organisation

The use of the project organisation has increased in the last few years. It is currently being employed in numerous undertakings engaged in the execution of construction activities, turnkey projects and research and development projects. The project organisation can take various forms, but the important

characteristic that distinguishes it from other forms is: once the project is completed the organisation is disbanded or phased out. By definition, project management involves, “the gathering of the best available talent to accomplish a specific and complex undertaking within time, cost and quality parameters, following by the disbanding of the team upon completion of the undertaking”. The group members then go on to another project, return to their permanent home department in the organisation, are given jobs elsewhere in the organisation, or, in some cases, are phased entirely out of the firm.

#### CONTINGENCY ORGANISATION DESIGN

In contrast to the models discussed so far, several contingency systems have come into wider practice of late. The emphasis in these systems is on flexibility. Accordingly, so many flexible structures are adopted these days to meet the specific needs of the organizations. This approach basically implies the development of a contingency theory of organisation. The approach is based on the exigencies of the situation. William F. Glueck, offers the following guidelines for contingency design:

- ❖ When low cost and efficiency the keys to successful goal achievement, organisations should use functional departmentation;
- ❖ When the environment is complex, matrix structure is effective;
- ❖ If the organisation is large and operates in a stable environment, it can afford to formalize the structure;
- ❖ The greater the intensity of competition, the greater will be the degree of decentralization;
- ❖ The greater the volatility of the environment, the more decentralized and flexible the organisation has to be; and

- ❖ Companies that implement the organisational systole appropriate to their strategy will be more effective than those that use an in-appropriate style.

#### SELF ASSESSMENT QUESTIONS

1. Draw the organisation chart of a hypothetical company and explain its salient features.
2. Define Unity of Command and Chain of Command.
3. Examine V.A. Graicunas theory on span of management. do you accepts his views?
4. What do you understand by levels in the oranisations? Examine the implications of too few and too many levels.
5. How does a tall organizational structure differ from a flat one? Give an example of each.
6. What do you mean by span of control? Examine the traditional as well as modern view points on the span of control.
7. What are the characteristics of functional departmentation? Explain its merits & demerits
8. What is Territorid departmentation? What are its merits and demerits?

#### FARTHER READINGS

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2. Kast.F.E., and J.E.Rsenzweig, Organisation and Management: A systems Approach, McGraw-Hill, New York., 1973

#### KEY TERMS

- ❖ Organising
- ❖ Unity of command
- ❖ Chain of Command
- ❖ Span of Control
- ❖ Functional departmentation
- ❖ Product departmentation
- ❖ Territorial departmentation

## LESSON

# 7

### AUTHORITY AND RESPONSIBILITY

#### LESSON OUTLINE

- Authority
- Responsibility
- Delegation Process
- Barriers to Effective Delegation
- Overcoming the barriers
- Decentralization of authority
- Line and staff Relationships
- Line and staff conflict
- Achieving harmony between line and staff

#### LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Understand the concept of authority, responsibility delegation
- ❖ Describe the process of delegation of authority
- ❖ Identify the barriers to affective delegation and find the ways to overcome the barriers
- ❖ Discuss decentralization of authority
- ❖ Find the factors influencing decentralization
- ❖ Explain the line and staff relationships

## INTRODUCTION

**‘AUTHORITY’** is the right to command. It is the discretion power vested with a manager to use the organizational resources. Manager acquire authority by virtue of the rank or title associated with this position. Authority is granted to the individuals in a formal way in the organisation. It flows from the top to down in the organisation structure.

**RESPONSIBILITY**, on the otherhand is obligation to perform the tasks and account for their satisfactory completion. It is implied that an individual is expected to fulfil certain job requirements when he or she accepts a position in the organisation. In other words, the individual is answerable for the results of the task to be performed. In contrast to authority, responsibility of an individual in the organisation is always upwards, that is, the subordinate is responsible to his or her superior.

**DELEGATION** is the process by which authority is granted to a subordinate by his superior. But for delegation of authority, organizations would remain for ever small. Delegation is the only solution to cope with the increasing work load of managers as the organisation grows. Because of the constraints of time and ability, a manager cannot perform all the tasks himself. Therefore, he delegates certain of the tasks to the subordinate and gets them done. Before proceeding further to understand the process of delegation, it is appropriate to examine, in brief, the concepts of authority and responsibility.

## PROCESS OF DELEGATION

### 1. Entrustment of duties or Assignment of responsibilities

This is a crucial step in that a few important questions like what to delegate? When to delegate? Whom to delegate? And how to delegate? Are answered. The effectiveness of delegation depends on how clearly these questions are

answered. First of all, the manger has to decide the tasks to be delegated to the subordinates. For this, he must be able to distinguish between the routine and non-routine tasks. Routine and single tasks can as well be performed by the subordinates while the non-routine and very important tasks must be performed by himself.

### 2. Granting of authority

When the subordinates are assigned certain tasks or responsibilities, it goes without saying that they need authority also to perform the tasks. Authority is required by them to use of the resources of the organisation in the execution of the tasks. The superior, therefore, parts with his authority to enable the subordinate to perform. Responsibility and authority both go together. One of the important principle of organising parity of authority and responsibility-emphasises the need for a proper balance between the two.

### 3. Creation of Accountability

Delegation does not end with just entrusting of duties and the granting of authority. The superior has to create an obligation on the part of the subordinate to perform. In other words, the subordinate is accountable to his superior for the tasks delegated. Thus, while authority flows downwards, responsibility flows upwards.

Normally, accountability is created by asking the subordinate to submit performance reports / status reports from time to time.

## BARRIERS TO EFFECTIVE DELEGATION

To make delegation effective, the spirit and willingness of both the parties are crucial. Though delegation is a powerful tool to motivate the subordinates and to develop managerial skills in them. if adequate care is not exercised the result may be considerable anxiety for both superiors and subordinates. Following are

some of the reasons why delegation often fails in organisation, to which both superiors and subordinates are responsible.

*The Superiors Resist to delegate because of the following reasons:*

- ❖ Lack of confidence in subordinates
- ❖ The “I can do it better myself fallacy”
- ❖ Lack of ability to direct
- ❖ Aversion to risk
- ❖ Absence of selective controls

### **Subordinates Resistance to Delegation**

Delegation to be effective, apart from the role of superiors, subordinates attitude and role are also important. Sometimes, subordinates may avoid responsibility and block the delegation process for the following reasons:

- i. The subordinates lack self-confidence. Added to that the fear that they will get into trouble in the event of failure puts them in a still worse situation.
- ii. The subordinate is not offered any incentives or benefits in terms of pay rises, importance and status for assuming additional responsibilities.
- iii. The subordinate finds it easier to ask the boss what to do rather than taking the initiative himself.
- iv. The subordinate fears criticism for mistakes. Since greater responsibilities increase the chances of making an error, subordinates for the sake of security try to avoid additional responsibilities.
- v. The subordinate believes he has more work than he can do. for fear of over burdening himself he may not show any interest to accept new responsibilities.
- vi. The subordinate lacks the information and resources needed to do the job successfully. Some managers with a view to let down their subordinates may deliberately make the delegation unclear. As a result the subordinate lands himself in confusion as to the exact nature of the duties and the authority that he can exercise. The motive of the superior in such cases may be to make the subordinate fail in the execution.

### **OVERCOMING THE BARRIERS**

Several of the barriers to delegation discussed above mostly relate to the behavioural aspects of individuals. Insecurity aversion to risk, lack of self-confidence, inability to trust another to perform a task are all different types of manifestations of human behavior. Among the various barriers, psychological barriers are the most difficult ones to overcome. To overcome many of these barriers, both superiors and subordinates must take a hard look at themselves, recognize their own fears and try to come out of the inhibitions. The following measures may help delegation to be effective.

- ❖ Effective Communication
- ❖ Parity of Authority and Responsibility
- ❖ Incentives for additional responsibility

### **DECENTRALIZATION OF AUTHORITY**

The terms ‘delegation’ and decentralization are often confused. While in delegation, authority is transferred on one-to-one basis from the superior to the subordinate, decentralization of authority is broader in scope and involves the transfer of authority in the organization context from top to the lower rungs of management in the hierarchy. Thus, the greater the amount of authority

delegated throughout the organization, the more decentralized the organization is. Decentralization is much more wider in scope reflecting management's philosophy regarding which decisions to be taken at the top as well as down the line in the organization.

It must also be understood that both absolute centralization and absolute decentralization are undesirable, for, the former refers an autocratic structure while the latter results in a chaotic situation. For this reason, decentralization must be viewed as a relative concept, not as an absolute one. Ernest Dale, a well-known management writer, has described the following conditions where decentralization is greater:

- ❖ The greater the number of decisions made lower down the management hierarchy.
- ❖ The more important the decisions made lower down the management hierarchy. For example, the greater the sum of capital expenditure that can be approved by the plant manager without consulting anyone else, the greater the degree of decentralization in this field.
- ❖ The more functions affected by decisions made at lower levels. Thus, companies which permit only operational decisions to be made at branch/plant levels are less decentralized than those which permit financial and personnel decisions at branch / plant level.
- ❖ The less checking required on the decision. Decentralization is greatest when no check at all must be made; less when superiors have to be informed decision after it has been made, still less if superiors have to be consulted before the decision is made. The fewer people to be consulted, and the lower they are on the management hierarchy, the greater the degree of decentralization.

Unburdening of top managers, better decisions because decisions are made closer to the scene of action, better training, morale and initiative at lower levels, and more flexibility and faster decision making are some of the advantages of decentralization. These advantages are widely acclaimed so much so that decentralization is often regarded as 'good' and centralization as 'bad'. But total decentralization, as mentioned earlier with no coordination from the top would be undesirable. That is why, the question before manager is not whether an organization should be decentralized, but to what extent it should be decentralized.

However, the degree of decentralization in an organization will vary with time and circumstances. It will also vary for the different units of the organization. For example, production and sales departments, in general, have gained a high degree of decentralization in many organizations, whereas financial departments have tended to remain relatively centralized.

### **1. Attitude of Subordinate Managers**

The Attitude of subordinate managers is another important factor that influences the decentralization because they can both encourage or discourage decentralization. If subordinates want decentralization, top management can not hold every thing in their hands for too long a period. The desire by subordinates for independence and the willingness to assume increased responsibilities may make them think of decentralization. As against this, shortage of lower level managers who are willing to assume responsibility may encourage top management to maintain a centralized structure.

### **2. The cost and Impact of the Decisions**

Managers may not be willing for decentralization where the commitment involved in the decisions is very high. As a rule of thumb, the greater the cost involved, the more likely it is that the decision will be made at the upper levels.



We often find situation in organizations where managers at a particular level seek the approval of superiors where the expenditure involved exceeds a certain limit.

### 3. Company Size and Rate of Growth

It is very difficult to manage a large organization efficiently with decision-making authority concentrated in one or few people at the top. further, as an organization grows in size and complexity, the need for decentralization is obviously felt. Top management cannot continue to hold a tight grip over the several aspects of the growing organization. This is the principal reason why organizations often engage in reorganizing their units and operations as they grow in size. The necessary autonomy is given to the units or departments so that top management can concentrate itself with more important tasks such as strategic planning and policy formulation.

**Organisation's Environment:** The type of competition in the market, technological developments, socio-cultural and political factors play a dominant role in the company's strategy. Strategy, in turn, influences the type of structure that can cope with the environmental pressures. In a fast changing environment as of today, one can easily find companies choosing decentralized structures that facilitate quick response to the environment.

### LINE AND STAFF RELATIONSHIP

Koontz and Weirich have defined line and staff authority as follows.

“Line authority becomes apparent from the scalar principle as being that relationship in which a superior exercises direct supervision over a subordinate – an authority relationship in direct line or steps. The nature of staff relationship is advisory. The function of people in a pure staff capacity is to investigate, research, and give advice to line managers to whom they report.”

There are tow approaches, to understand line and staff concepts. One approach lays emphasis on the basic functions of the business. Accordingly, functions of an enterprise are classified into line and staff functions. To quote Louis Allen: “Line function are those which have direct responsibility for accomplishing the primary objectives of the enterprise and staff functions refer to those elements of the organization that help the line to work most effectively in accomplishing the primary objectives of the enterprise”.

The other approach views that line and staff are two kinds of authority. According to this approach, line authority is defined as a direct authority which a superior exercises over his subordinates to carry out orders and instructions. The exercise of this authority is always downwards, that is, from a superior to a subordinate. Staff authority involves giving advice to line managers to carry on the operation. The flow of this authority may be in any direction depending on the need of such an advice. It is common that in actual practice, some variations may exist. The variations are more pronounced in the case of staff authority.

The distinction between line and staff though not rigid, is important because staff must be provided if the growing organization is to accomplish its goals. The differentiation between line and staff is necessary for the following reasons.

### LINE AUTHORITY

In the organizing process, authority is delegated to the individuals to perform the activities. These individuals, in turn, assign some of the activities to persons working below them in the hierarchy and delegate them authority. This process goes on, creating superior-subordinate relationships in the organization. The direct relationship between a superior and his subordinate is created through the enforcement of line relationship.

### STAFF AUTHORITY

The relation between a staff manager and the line manager in part depend on the type of duties performed. A man who only gathers facts or only checks on performance will have relationship with line manager that are different from those of a man who has concurring authority. Such variations between line and staff relationships as discussed earlier, run along a continuum with only advice at one extreme point. In two more situations represent compulsory staff consultation and concurring authority. Thus, variations are often found in respect of staff authority and responsibility the organizations.

### LINE AND STAFF CONFLICT

Line and staff relationship implies that both are complimentary in nature. However, there are frequent instances of conflict between line and staff in the organizations, resulting in friction. The various factor leading to line-staff conflict can be grouped into three categories. Apprehensions of line managers, 2. Apprehensions of staff, and Nature of line-staff relationship.

### ACHIEVING HARMONY BETWEEN LINE AND STAFF

The effectiveness of line people depends to a large extent on how they make use of staff. Staff people are needed in the organization because line people may not be able to solve the problems which require specialised knowledge. For making proper use of staff, following points are important.

- (i) Staff people should be involved right from the initial stages of planning of an activity rather than when the problem becomes critical. When they are involved at the level of planning, many of the problems may
- (ii) In order to make proper use of staff, they should not be kept busy in unimportant work-because it does not serve any meaningful purpose. Instead, they should be assigned critical work in the area other.
- (iii) There should be encouragement and education to line people as to how to make maximum use of staff effectively. Line people can not make use of staff unless they know what a specialist can do for them. At the same time, staff people also have a responsibility to let line people know how they can contribute for the better performance of line activities.
- (iv) If line people take some actions directly affecting staff activities without consulting staff people, they should be informed immediately about such actions. The information will help in removing misunderstandings. If any, created in the minds of staff people.

### SELF ASSESSMENT QUESTIONS

1. What do you mean by the terms 'authority' and 'responsibility'? Are they important in the process of delegation.
2. Explain the process of delegation of authority in an organizations. Discuss
3. How are delegation and decentralization related? Are they both one and the same?
4. Critically examine the line and staff authority concepts with the help of a few examples.

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**KEY TERMS**

- ❖ Authority
- ❖ Responsibility
- ❖ Delegation
- ❖ Decentralization
- ❖ Line – Staff relationship
- ❖ Line Authority
- ❖ Staff Authority
- ❖ Line – Staff Conflict

**LESSON****8****EMERGING TRENDS IN CORPORATE STRUCTURE****LESSON OUTLINE**

- Organisation Design in the future
  - Small number of Management Levels
  - System decoupled from structure
  - The sharing of resources rather than the dividing of them
- Strategy and organisation design
- Informant organisation and culture.

**LEARNING OBJECTIVES**

*After reading this lesson you should be able to*

- ❖ Explain organisation design in the
- ❖ Describe how strategy will fit in the organisation design
- ❖ Understand that organisation culture will play a role in deputing informed organisation.

**INTRODUCTION**

For many years the fundamental structure underlying organization design has been the classic pyramid. Although it still plays a major role, some authors are beginning to suggest that organization design in the future will be characterized by four basic differences from today's pyramid-oriented structures and will exhibit.

1. A small number of management levels
2. Adhocracy and porous departments
3. Systems decouple from structure
4. The sharing of resources rather than the dividing of them

**ORGANIZATION DESIGN IN THE FUTURE****Small Number of Management Levels**

The distance between the point where an organization experiences the forces of change-especially in its markets, technologies, and products-and the point where strategic decisions are made to redesign the company in response to these forces is often five or more levels of management. As a result, the time it takes to respond to major change may be much longer than necessary, causing organizations to be reactive rather than proactive (at the forefront of change). Requests for changes carry a heavy burden of documentation, justification, presentation, and timing requirements as they move up and down each of these five or more levels of management.

Organization of the future will seek to reduce the physical and psychological distance from the top to the bottom of their structures. The authority, responsibility, and power necessary to deal effectively with rapidly changing conditions will be vested in the lowest level of the organization, where the factors relevant to decisions about change are most readily apparent and best understood. John Sculley at Apple moved in this direction by adjusting Apple's

design so that territorial managers have greater discretion in deciding how Apple can meet the needs of major customers (educational or business) in their areas. Sculley also created rapid-response teams composed of the territorial manager, a production manager, and an ancillary products manager. This team has authority to make significant decisions about how Apple will price, produce, and supply products for customers whose needs exceed certain levels.

#### **ADHOCRACY AND POROUS DEPARTMENTS**

As organizations get larger, they begin to stifle the ability of subunits to make decisions and respond autonomously to change. One of the major reasons for the success of the corporate raiders of the 1980s was the efficiencies to be gained by simply buying highly diversified companies and breaking them apart into their individual, separate business. The resulting freedom and flexibility often produced much more profitable business.

**Organizations of the future will accept adhocracy:** federations of relatively autonomous units each of which can operate entrepreneurially. And within each unit, the structure will be more fluid or porous. Arbitrary barriers between and within departments will be less important – may even be removed – to allow people to “float” more between units, contribute to decisions, and get key jobs done.

#### **SYSTEMS DECOUPLED FROM STRUCTURE**

Most organization structures are quasi-permanent. They stay in place for many years. It is not surprising that most of the systems that help “manage” the company—compensation, promotion, accounting, communication, and planning, to mention a few – are fitted to the structure of the organization.

If flexible structures such as adhocracy and fewer levels of management evolve, the supporting systems will have to stand alone. Promotions must be more than movements between slots in units and levels. Compensation must be

linked to more than unit-related criteria. The key will be tailoring the systems to individuals rather than to organization units. Systems generally exist today to protect the company from human error. Systems of the future must enhance innovation, which probably means that systems must decouple from structures and serve to enhance individual initiative, not limit it.

#### **SHARING RATHER THAN DIVIDING UP RESOURCES**

The system that many organizations use to make decisions about the future and to commit resources to support those decisions is budgeting. Hence many managers are preoccupied with determining what resources they have to work with. Then, on the basis of that, they decide what they can do in the future. They ask, “What resources do we have under our control and what options do they allow us to pursue?”. The central theme in this orientation is the need to identify and control the resources available.

Another system or orientation that many organizations are beginning to take seriously looks at the opportunities dictated by changing environments as the true starting point for making future decisions. Managers with this orientation ask, “What opportunities are available to us?” Only after settling on a range of opportunities do they address the issue of resources: “What resources do we need [not “control;”] in order to pursue favorable opportunities?” The manager who takes this approach seeks to borrow or temporarily use resources, not to own and control them. Resources are viewed simply as a means of pursuing attractive opportunities, not as things to accumulate as a source of organizational power. Managers in firms that employ this type of system use company resources (people, facilities, money, capacity, technology, marketing capability) only as long as they are needed. And because it is critical to make resources available in time for managers to seize the opportunities they discover, this system encourages access to resources in a manner that reduces paperwork,

the levels of management through which decisions must travel, and the extent of “political” activity necessary to secure resources. Many people feel that this orientation – sharing rather than owning resources will be the most effective orientation for organization designs of the future.

#### ACTIVITY - A

What are future organization designs

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#### STRATEGY AND ORGANIZATION DESIGN

The primary consideration in designing an organization is that organization’s strategy. A well-developed design enhances the accomplishment of strategic objectives, and these strategic objectives should have been carefully selected to ensure successful organizational performance. Organization design are overall plans for organizing the work, goals, relationships, and decisions of an organization in such a way that people can perform to the best of their abilities. Thus the ultimate goal of organization design is to facilitate performance. A poorly conceived design can prevent high performance. In a well-managed organization, the connection among strategy, design, and performance is strong.

Researchers have pointed out that an organization’s existing design also affects its strategy. For example, the design places power in the hands of a certain group of people, so there is a tendency among the members of this group to formulate strategies that preserve the status quo. It is not necessary to figure out whether strategy or design came first, or which has more impact, but it is

critical to acknowledge the strong reciprocal relationship that exists between strategy and design.

#### ACTIVITY - B

What is the relationship between strategy and organization design

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#### INFORMAL ORGANIZATION AND CULTURE

The informal organization consists of the personal relationships and means of communication that are often necessary to accomplishing the work of the organization but are not a part of the formal organization structure. A related concept is the organization’s culture: the shared beliefs, attitudes, and opinions about the company and what it stands for. The informal organization and the organization’s culture are created by people throughout the company rather than being controlled by top management.

Informal organization and culture are important considerations in the overall design of an organization because of their influence on the behaviour and performance of employees. In designing or redesigning an organization, management must always take the informal organization and the prevailing culture into account. If the organization’s design clashes with its culture, it is most unlikely that the design will be effective. And where the design specifically attempts to frustrate part of the informal organization, harmful conflict may result.

**SELF ASSESSMENT QUESTIONS**

1. What are the emerging trends in corporate structure? Explain.
2. Explain the relationship between strategy and organization design.
3. Explain the role of culture in acceptable formal and informal organization.

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2. J. Woodward, Industrial Organization, Oxford University Press, 1965.

**KEY TERMS**

- ❖ Adhocracy
- ❖ Porous Departments
- ❖ Strategy
- ❖ Culture
- ❖ Informed organization

**LESSON****9*****IMPACT OF TECHNOLOGY ON ORGANIZATIONAL DESIGN*****LESSON OUTLINE**

- Impact of Environment on organization design
- Environmental variations
  - Stable Environment
  - Changing Environment
  - Turbulent Environment
- Design organizations to match
- their Environment
  - Mechanistic design
  - Organic / Adoptive design
- Impact of Technology on organization design
  - Unit and Small-Batch Technology
  - Large –Batch and Mass production technology
  - Continuous process technology
  - Size

**LEARNING OBJECTIVES**

***After reading this lesson you should be able to***

- ❖ Explain the impact of environment on organization design
- ❖ Understand to design organization to match their environment
- ❖ Describe the impact of technology on organization design
- ❖ Understand that organization culture will play a role in deputing informed organization.



## INTRODUCTION

Three factors have been found to have an effect on the design of an organization. The most appropriate design for an organization seems to be contingent on such **variables as the state of its environment, the complexity of its technology, and its size**. The organization's environment is an external variable, its technology has internal as well as external aspects; and its size is principally an internal factor.

### Impact of Environment on Organization Design

Organizations are influenced by the broader environment in which they exist. Government policy, societal values and social norms, economic trends, and the rate of technological change and innovation are general environmental factors that can affect virtually any organization. And every business must adjust daily to its customers, competitors, suppliers, and creditors – all are part of its immediate environment.

Managers of business design their organizations to take advantage of opportunities that arise in their environment and to respond to changes in this environment. Most studies investigating the relationship between an organization's design and its environment have concluded that the best design for a given organization is contingent on the characteristics of its environment.

### Environmental variability

In assessing the possible impact of the environment on its design, an organization must consider the amount of variability in its environment – that is, the degree of change with which it must be prepared to cope. It must consider the frequency of change, the magnitude of change, and the predictability of change. An organization's environment may be stable, changing, or turbulent.

**Stable Environments.** A **stable environment** is one that experiences little or no unexpected or sudden changes. Products require only minor changes, if any, and

the market shows very few fluctuations. For whatever reasons, the product attracts neither regulatory attention nor technological innovation. Consequently, the organizations in a stable environment can remain virtually the same for a long time. But stable environments are becoming more scarce. It is difficult to think of many organizations that have made the same product with the same process and sold it in essentially the same way for the last century.

Arm & Hammer is one organization with stable environment. It has been providing baking soda to similar markets for over one hundred years. The markets have grown, outlets for selling baking soda have changed, and additional uses for the product have been found, but the overall level and rate of change in the product and its markets have been minimal.

**Changing Environments.** **Changing environments** are defined by trends that are predictable. Thus the organization can be prepared to adjust to the changes when they occur. For example, the environment of many service firms could be characterized as changing. Trends in demand for services often depend on the social fabric of society. Values and tastes certainly change over time, but these changes do not usually occur so unexpectedly or so rapidly that service-firms cannot adjust to them. the characteristic flexibility of service firms helps them adapt readily to such changes. Firms that produce products can also predict trends in changing environments. For example, Apple's decision to position itself more strongly in the business computer market was motivated in part by the overall decline in the student population (Apple's traditional strength), which resulted from changes in demographic trends that were apparent well before they actually affected the numbers of students.

Holiday Innos is another example of a company that is adjusting its business to predictable changes – in this case, changes in the social characteristics of potential lodging customers. Specifically, the rising number of



women in the work force has created a need to ensure that lodging facilities accommodate female as well as male executive. And the declining number of families has reduced the emphasis on family-centered accommodations.

**Turbulent Environments.** **Turbulent environments** are marked by swift, frequent, and radical changes that occur with little or no warning. In the early stages of development of an industry, its environment is often turbulent as a new technology quickly emerges to replace an older one, new products or models are rapidly introduced to supersede yesterday's, and (often) regulations are imposed to reign in the rapidly changing industry. Usually this turbulence is temporary, and the industry and its surviving organizations soon settle down into a less volatile state. The computer industry, however, is an exception. It has operated in a turbulent environment for several decades now.

Consumer electronic products constitute one of the most rapidly changing industries worldwide. A model introduced in the fall of the year, such as a VCR camera, is often rendered obsolete by new models – and even new technologies – available the next spring.

### ACTIVITY - A

Explain how environment affects the organization design

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### DESIGN ORGANIZATIONS TO MATCH THEIR ENVIRONMENTS

Some of the pioneering work on the relationship between organization design and environment was done by Tom Burns and G.M. Stalker. They found that successful organizations were designed differently in different environments. They distinguished between two types of organization designs: a mechanistic design and an organic design.

**Mechanistic Designs.** A **mechanistic design** follows Weber's bureaucratic model very closely in that it is characterized by specialized activities, specific rules and procedures, an emphasis on formal communication and a well-defined chain of command. Because mechanistic designs tend to be inflexible and resistant to change, this type of design is more successful in a stable environment. The U.S. Army offers a good example of a mechanistic design.

**Organic Designs.** In an **organic design**, task activities are loosely defined, there are very few rules and procedures, and great emphasis falls on self-control, participative problem solving, and horizontal communication. Organic designs are more successful in dynamic, rapidly changing environments that require adaptability to change. Apple's early organization design was organic. The personal computer industry (which Apple pioneered) was rapidly changing, and this design was well suited to those early days of a new industry.

#### Comparison of Mechanistic and Organic Organisations

Mechanistic	Organic
1. Tasks are highly fractionated and specialized; little regard paid to clarifying relationship between tasks and organizational objectives.	1. Tasks are more interdependent; emphasis on relevance of tasks and organizational objectives.

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|--|---|
| 2. Tasks tend to remain rigidly defined unless altered formally by top management.   | 2. Tasks are continually adjusted and redefined through interaction of organizational members.  |
| 3. Specific role definition (rights, obligations, and technical methods prescribed for each member).   | 3. Generalized role definition (members accept general responsibility for task accomplishment beyond individual role definition).                   |
| 4. Hierarchical structure of control, authority, and communication. Sanctions derive from employment contract between employee and organization. | 4. Network structure of control, authority, and communication. Sanctions derive more from community of interest than from contractual relationship. |

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|---|---|
| 5. Information relevant to situation and operations of the organization formally assumed to rest with chief executive.  | 5. Leader not assumed to be omniscient; knowledge centers identified where located throughout organization. |
| 6. Communication is primarily vertical between superior and subordinate.  | 6. Communication is both vertical and horizontal, depending on where needed information resides.            |
| 7. Communications primarily take form of (1) instruction and decisions issued by superiors and (2) information and request for decisions supplied by inferiors. | 7. Communications primarily take form of information and advice.  |
| 8. Insistence on loyalty to organization and obedience to superiors.  | 8. Commitment to organization's tasks and goals more highly valued than loyalty or obedience.               |
| 9. Importance and prestige attached to identification with organization and its members.  | 9. Importance and prestige attached to affiliations and expertise in external environment.                  |

Burns and Stalker did not suggest that organizations could make on of only two design choices on the basis of their environment. They recognized that the environment surrounding each firm is unique and that each firm must design its structure accordingly. The mechanistic and organic designs are not tow “either-or” design options; rather, they exist at opposite ends of a continuum along with an organization’s design is characterized.

Later work by Paul Lawrence and Jay Lorsch supported Burns And Stalker's findings. Lawrence and Lorsch studied several firms in three different industries and found that more effective forms had designs that matched their environments. The effective firms in stable industries had mechanistic organization designs, whereas the most effective firms in turbulent industries had organic designs.

### ACTIVITY - B

Distinguish Mechanistic and Organic design

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While the nature of firm's external environment has a strong influence (or should have) on the firm's organization design, other influences must be considered. Another important factor to be taken into account in organization design decisions is the nature of the firm's technology.

### Impact of Technology on Organization Design

As we have said, technology has internal as well as external dimensions. There is a tendency to associate technology only with factories and machines, but in terms of organization design, its meaning is much broader. Technology encompasses all the tools, equipment, processes, actions, materials, and knowledge required to convert an organization's inputs into outputs that can be distributed as useful goods or services. This definition makes it possible for such diverse activities as teaching students, dry cleaning clothes, and assembling automobiles all to be considered technologies. In this sense, technology is an internal dimension; it is the way the organization goes about doing the work it

exists to do. A professor can teach a course with three hindered students in one class; another course might be restricted to thirty-five students. The former would probably require the lecture format, or technology, whereas the thirty-five-student class could be taught via several technologies. Including the case method, lectures, and group projects. Similarly, a dry cleaner can choose among several technologies, including the case method, lectures, and group project. Similarly, a dry cleaner can choose among several ways to provide dry cleaning services. In either example, the "technology" whereby the work is done can vary. And different technologies affect the degree of specialization or standardizations necessary eh types of coordination mechanisms needed, the levels at which decisions should be made, and the optimal size of organizational units.

### JOAN WOODWARD

Much of the pioneering work on the relationship between technology and organization design was done by Joan Woodward. She found that differences in technological complexity accounted for differences in the way effective organizations were designed. Her scale for measuring technological complexity consisted of three major categories: unit and small-batch technology, large-batch and mass production technology, and continuous-process technology. Woodward assigned a firm's technological complexity to one of these there categories on the basis of the extent to which its manufacturing processes were automated and standardized.

**Unit and Small-batch Technology.** Unit and small-batch technology is consistent with the notion of a job shop. Custom-made items (such as tailored clothing) and items only one of which is produced (such as portraits) are examples of unit production. Small-batch technology is the production of small quantities of items with each production run. Print shops wherein each

customer's order must be set and run separately utilize small-batch technology. Unit and small-batch technology is the least complex of Woodward's categories because it offers little opportunity for using automated and standardized techniques. Most of the work done by professionals such as doctors, lawyers, and managers could be considered unit technology.

**Large-Batch and Mass-Production technology.** The most common example of large-batch and mass-production technology is an assembly line, where large numbers of the same product are produced. This kind of production utilizes mechanization and standardized parts. Almost all consumer durable goods, such as automobiles and appliances, are produced in this manner.

**Continuous-Process Technology.** A **continuous-process technology** utilizes fewer workers than does mass production, because most of the process is automated. A continuous stream of raw-material input is actually transformed into a continuous flow of output, not into separate, definable units. The process often changes the material composition of the inputs. Most refinery operations, such as that of petroleum, chemicals, or sugar, are considered continuous-process technologies. This category is the most complex in Woodward's scheme, because the processes involved are almost always completely automated.

Woodward found that several design components varied with the organization's type of technology. As technological complexity increased, the number of levels of management increased (that is, the organization structure became taller) the span of control of top management increased, and the ratio of line to staff workers increased. However, the span of control for lower-level managers was greatest for technologies intermediate in complexity. This is probably because large-batch and mass-production technologies require numbers of workers than do either unit or continuous-process technologies.

Woodward's findings indicated that organizations characterized by the most complex (continuous-process) and the least complex (unit and small-batch) technologies tended to have more organic designs. Organizations exhibiting technologies in the middle range of complexity (large-batch and mass-production technologies) had more mechanistic designs. Most important, she found that the most successful organizations followed this pattern. It appears that technology is an important determinant of appropriate structure.

#### **JAMES THOMPSON**

Several years after Woodward's British studies, the American James D. Thompson divided technologies into three categories on the basis of years of observation in different organizations. He labeled technologies as long-linked, mediating, or intensive.

**Long-Linked Technology.** Thompson's **long-linked technology** is characterized by a series of sequential tasks that must be performed in a specified order. The assembly line is an example of long-linked technology. Thus this category closely parallels Woodward's large-batch and mass-production technology.

**Mediating Technology.** A **mediating technology** is a process that brings together groups that need to be interdependent for the desired action to take place. For example, banking is a mediating technology; it facilitates the interaction between depositors and borrowers. Employment and other talent search agencies connect suppliers of specialized labor with buyers. This type of technology is intermediate in flexibility. It allows for some standardization but can also adjust its output in response to variations in the needs of the parties it seeks to link.

**Intensive Technology.** An **intensive technology** involves the application of specific skills, techniques, or services in order to make a change in an input.

This type of technology describes custom work and is consistent with Woodward's unit production technology. The value of an intensive technology is its maximal flexibility.

Environment and technology are not the only critical factors shaping organization design decisions. The sheer size of an organization often plays a central role in organization design. The next section examines the size consideration in greater detail.

### Size

The impact of the sheer size of an organization on its design has attracted a great deal of research attention. It seems obvious that organizations change as they get larger and that more complex designs become necessary, but the research results are not unanimous. This may be due in part to the fact that size has been measured in a variety of ways, including criteria as diverse as number of measures does not explain away the different outcomes. Most of these measures are highly correlated and thus should produce similar results.

### SELF ASSESSMENT QUESTIONS

1. Describe the impact of environment on organization design
2. What are environmental variables that will have impact on organization design?
3. What are Mechanistic design and organic design?
4. Explain the impact of Technology on organization design.

### FURTHER READINGS

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### KEY TERMS

- |                         |                                 |
|-------------------------|---------------------------------|
| ❖ Environment           | ❖ Small-Batch Technology        |
| ❖ Stable environment    | ❖ Size                          |
| ❖ Changing Environment  | ❖ Mass-Production technology    |
| ❖ Turbulent Environment | ❖ Continuous Process technology |
| ❖ Mechanistic design    | ❖ Long-Linked Technology        |
| ❖ Organic design        | ❖ Mediating technology          |
| ❖ Technology            | ❖ Intensive technology          |

## LESSON

## 10

## FORMAL AND INFORMAL ORGANIZATION

## LESSON OUTLINE

- Formal Organisation
- Informal Organisation
- Making better use of informal organization
- Comparative study of formal and informal organisation

## LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Understand the concept of formal and informal organizations.
- ❖ Define what is formal organization.
- ❖ Describe the nature of informal organization.
- ❖ How to make use of informal organization.
- ❖ Compare the formal and informal organizations.

## INTRODUCTION

Formal organization, which refers to the structure of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability, is not capable of accomplishing organizational objectives all alone. It needs the help of informal organization for this purpose. In other words, informal organization, which does not appear on the organization chart, supplements the formal organization in achieving organizational goals effectively and efficiently.

## FORMAL ORGANISATION

Chester I. Barnard defined formal organization as “a system of consciously coordinated activities or forces of two or more persons”. A formal organization is deliberately designed to achieve some particular objectives. It refers to the structure of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability. The structure is consciously designed to enable the people of the organization to work together for accomplishing common objectives. Thus, formal organization is more or less an arbitrary structure to which the individual must adjust. It tells him to do certain things in a specified manner, to obey orders from designated individuals and to cooperate with others. Coordination also proceeds according to a prescribed pattern in the formal organization structure.

The formal organization is built around four key pillars; namely, (i) division of labour, (ii) scalar and functional processes, (iii) structure, and (iv) span of control. These may also be called the principles of formal organization. Division of labour and specialization is the basic principle of formal organization. The whole work is divided into a number of small operations and each operation is performed by a different person so that there is maximum specialization. The scalar and functional processes imply the growth of the

organization both vertically and horizontally. The structure of the organization refers to the overall arrangement in the organization which ensures proper balance between different parts of the organization and secures the execution of all operations and the achievement of organizational objectives. The span of control refers to the number of subordinates directly reporting and accountable to one superior.

Formal organization is the official hierarchy as it appears on paper. It is the basis and official version of the organization. Formal organization possesses the following characteristics:

1. It is deliberately impersonal;
2. It is based on ideal relationship; and
3. It is based on the rabble hypothesis of the nature of man.

These characteristics have also been criticized by many authors. Firstly, as formal organization is deliberately impersonal, emotions and sentiments of individuals are ignored in determining the interactions, communication and accountability. But human beings cannot live without social relations and, that is why, they develop informal relations. Secondly, it is based on ideal relationships. Human beings are thought to be rational and economic beings. Further it is assumed that there would be no unofficial channel of communication. But it is very difficult to find such ideal relationships in actual life. Lastly; it is based on the rabble hypothesis of the nature of man. It is assumed that there will always be the same kind of reaction if human beings are punished or rewarded. But the individuals are not always motivated by the same rewards or punishments in the same manner.

Formal organization is deliberately construed to achieve some goals. It sticks to the goals (as laid down by the originators.) Goals are not easily changeable with the passage of time. This is another point of criticism put

forward by its critics. The rules and regulations of the organization may be too rigid that it becomes difficult to achieve the goals. Moreover, formal organization does not consider the goals of the individuals. Because of these reasons formal organization usually gives birth to informal groups which cannot be separated from it. As a matter of fact, there is a close relationship between the formal and informal organizations. Management should not ignore informal organization (informal group, informal leader, informal communications, etc.), but it should use it to achieve the organizational goals.

### ACTIVITY-A

Describe the characteristics of formal organization.

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### INFORMAL ORGANIZATION

Informal organization refers to the relationship between people in the organization based on personal attitudes, emotions, prejudices, likes, dislikes. Etc. These relations are not developed according to procedures and regulations laid down in the formal organization structure; generally, large formal groups give rise to small informal or social groups. These groups may be based on same taste, languages, culture or some other factor. These groups are not preplanned, but they develop automatically within the organization according to its environment. The reasons for creation of informal groups have been discussed later in this chapter.

Informal organizations are small groups and these groups can overlap because a person may be a member of several different informal groups. A



manager cannot abolish the informal groups since he does not create them. Informal relations will always support and supplement the formal one. There are certain disadvantages also of informal organizations. They put resistance to change and conform to old practices. The communication in informal organization is very fast; sometimes, it creates rumours which may prove dangerous to the enterprise.

Modern authors on organization behaviour view organization as consisting of both types of relationships, i.e., formal and informal. It is true that while laying out an organizational plan, management can only develop formal structure of relationships, but organization is not only a formal chart or structure of relationships. Formal organization, no doubt, is an important part of the organization. But informal organization is also not less important. If handled properly, it will help in performing the activities of the organization very efficiently and effectively. The role of informal leaders and groups has been discussed later in the chapter in short, informal relations are complementary to formal relations and procedures laid down in the organization structure. Both formal and informal organizations are necessary for any group action just as two blades are essential to make a pair of scissors workable.

### ACTIVITY-B

Describe the nature of informal organization.

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### Making Better Use of Informal Organization

The management should not look down upon the informal organization as it arises spontaneously along with the formal organization and fills in some of the vital gaps in the formal organization. It may be noted that formal organization is unable to meet all the needs (e.g., affiliation, affection, esteem, etc.) of its members. Management can fulfil these needs of the workers by encouraging informal organization provides a buffer to absorb the shock of tensions and frustrations among the members as a result of formal organizational pinpricks.

Informal organization may act to fill in gaps in a manager's abilities. For instance, if a manager is weak in planning, one of his subordinates may informally help him in such a situation. Management may also make use of informal group leaders by taking them into confidence to mediate as bridges of understanding between the management and the employees. Shartle has rightly said, "Informal structure is one index of the dynamics of getting work done and it appears that, for efficiency, it will necessarily deviate from the formal structure." Therefore, management should adopt a positive attitude towards informal organization. It should use it along with formal structure to make a workable system for achieving the organizational objectives.

Most informal groups tend to be small. Each has its leader, who was not elected or appointed, but earned this status because of age, seniority on the job, dominant personality, special capability, physical strength, or some other characteristic. However, in large informal organizations, there may be more than one leader whom the group will follow under given circumstance. An individual with more formal education than the others may be looked to in matters that require formal communication. He may be asked to speak for the group in dealings with management, the union, or other informal groups. Another

member possessing more job experience and “know-how” may be consulted when direction or guidance is needed in handling a work assignment or solving some problems connected with it. A manager should identify informal leaders and work with them.

A manager can build favourable relations with informal leaders in several ways. He can consult the leaders and seek their advice on technical matters or human relations problems. He can request their assistance and cooperation in indoctrinating new members and training them to become competent workers in their formal job assignments. Open, two-way communication can be encouraged on a continuing basis for mutual benefit. A manager must be careful not to reduce the status of the leader in the eyes of his constituents. Informal communication system though may have certain ill consequence, can also be used by an enlightened manager to plug the loopholes of the formal communication system. Informal communications is very fast and ensures speedy transmission of information. It is the duty of every manager to see that informal communication does not produce rumours and if a rumour spreads, it should not be allowed to damage the functioning of the organization. In short, management can use every aspect of informal organization to achieve the organizational objectives.

### ACTIVITY-C

Briefly explain how to make use of informal organization.

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### Comparative Study of Formal and Informal Organization

The formal and informal organizations differ from each other in the following respects:

- (i) **Origin.** The reasons and circumstances of origin of both formal and informal organizations are totally different. Formal organizations are created by conscious managerial decisions. But informal organizations arise naturally within the formal organization because of the tendency of the individuals to associate and interact. Management has no hand either in emergence or in abolition of informal groups.
- (ii) **Purpose.** Formal organizations are created for realizing certain well-defined objectives. But informal groups are created by organizational members for their social and psychological satisfaction. There may be a conflict between the goals of the formal organization and those of the informal groups.
- (iii) **Activities.** Activities in case of formal organization are differentiated and integrated around the objectives of the enterprise and are formalized into work units or departments on a horizontal basis. Individuals are fitted into jobs and positions and work groups as a result of managerial decisions. In case of informal organization, there are no specific activities. They arise from time to time as a result of interactions and sentiments of the individuals. Informal groups may be based on common taste, language, culture or any other factor.
- (iv) **Structure.** Formal organizations are hierarchical, pyramid shaped and bureaucratic in structure with well defined positions, rigid delineation of roles and superior-subordinate relationships on impersonal basis, enforcement of organizational order through a set of policies, procedures, and rules, conscious emphasis on status, differential based on authority, narrow and downward oriented communication system, etc. On the other hand, informal organization is

uncharitable; it looks like a complicated and common social network of interpersonal relationships. Informal organization is loosely structured, with only unwritten norms of behaviour enforced by consent. Communication is informal and multi directional. There are no rigid status differentials.

(v) **Membership.** In a formal organization, every individual belongs to one work group only and works under one superior. But in case of informal organization, one person can be a member of more than one group, according to his choice. He may be a leader in one group and a follower in another. There is no rigidity about group membership.

(vi) **Orientation.** In case of formal organization, values, goals and tasks are dominantly economic and technical and they concern productivity, profitability, efficiency, survival and growth. But in case of informal organization, values, goals and tasks are dominantly psycho-social, setting around individual and group satisfaction, affiliation, cohesiveness and friendship.

(vii) **Norms of Behaviour.** In a formal organization, individuals are required to behave in the prescribed manner in their work situations. They are expected to behave in a rational manner. Deviations from the standard norms are dealt with according to the processes of organizational law and order. There is also a system of rewards and punishments. But in case of informal organization, individual behaviour and group behaviour influence each other. Behaviour is more natural and social.

Interactions cut across formally established positions and relationships and there is free exchange of feelings and ideas. An informal organizations develops its own norms of behaviour and a system of rewards and punishments to ensure adherence of group norms.

#### ACTIVITY-D

Compare formal and informal organizations.

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#### SELF-ASSESSMENT QUESTIONS

1. Define Formal organization and explain its features.
2. Give a comparative assessment of the importance of formal and informal organization.
3. Distinguish between formal and informal organization. What should be the attitude of management towards informal organization?
4. How can informal organization undermine and distort the formal organization?

#### FURTHER READINGS

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2. John A. Pearce II, Richard D. Robinson, Jr. Management, Mc Graw-Hill International, 1990.

#### KEY TERMS.

- ❖ Formal Organisation.
- ❖ Informal Organisation.

## UNITE – V

## LESSON

## 21

## MANAGEMENT APPROACHES AND STYLES

## LESSON OUTLINE

- Human Relations Approach
- Hawthorne Experiment
- Systems Approach
- Contingency Approach
- Operational Approach
- Quantitative Approach
- Human Resource Management Approach
- Management Science Approach
- Management Styles

## LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Explain various approach of management.
- ❖ Understand human relations approach
- ❖ Describe the Hawthorne Experiments
- ❖ Explain the components of Systems approach.
- ❖ Analyze contingency approach
- ❖ Differentiate systems approach and contingency approach.
- ❖ Understand operational and quantitative approaches
- ❖ Explain different styles of management.

## INTRODUCTION

There are different approaches in management. The managers as according to their belief and convenience adopt any one or a combination of approaches in managing their organizations. The important management approaches are presented here.

## HUMAN RELATIONS APPROACH

*Human Relations: Definition*

Human relations pertains to motivating people in organizations in order to develop teamwork which effectively fulfils their needs and leads to achieving organizational goals. Thus human relations.

- strive to create a positive and conducive work environment, focuses on people,
- has the ultimate goal of increase in productivity and
- seeks to build human cooperation towards achievement of organizational goals.

The human relations approach is the outcome of reactions of classical theorists like Many Parker and Chester Barnard. Elton Mayo and his associates pointed out that the techniques of scientific management are not adequate and they do not contribute to individual and organizational goals.

The essence of human relations approach is that workers should be treated as human beings but not as mere factors of production. Workers need, feelings, attitudes, value and desires are extremely important. The theme of human relations approach is that (i) organizational situation should be viewed in social terms as well as in economic and technical terms and (ii) the social process of group behaviour can be understood in term of the clinical method analogous to the doctor's diagnosis of the human organism.

## HAWTHORNE EXPERIMENTS

An intensive and systematic analysis of human factor was made in the form of Hawthorne Experiments. Elton Mayo is generally recognized as the father of human relations approach although a number of professors of the Harvard Business School and managers of Hawthorne Plant of Western Electric Company USA where the experiments were conducted between 1924 and 1933 had been associated with him. The series of experiments conducted may be classified as:

### *(i) Phase 1. Illumination Experiments*

This experiments was conducted to know the impact of illumination on productivity. The experiment involved the prolonged observation of two groups of employees making telephone relays. The intensity of light under which one group worked (test group) systematically varied while the light was held constant for the second group (control group). The productivity of the test group and control group increased. The researchers concluded that some other variables were contaminating the effects of the light changes.

### *(ii) Phase 2. Relay Assembly Test Group*

A small group of workers was placed in a separate room and a number of variables were altered – like wages were increased, rest periods of varying lengths were introduced, the workday and work week were shortened. The supervisors, who acted as observers, also allowed the groups to choose their own rest periods and members of their own groups and to involve in decision making regarding suggested changes. Performance tended to increase over the period but it also increased on decreased erratically.

### *(iii) Phase 3. Interviewing Programme*

Mayo initiated a three year long interviewing programme in 1928, covering more than 21,000 employees to find out the causes for increased productivity. The emphasis of the phase was on human relations rather than on working conditions. This programme initially proved to be useless as employees often gave stereotyped responses. This led the interviewers towards asking indirect questions. Then the employees began to air their feelings freely. The point demonstrated by this interviewing programme is central to the human relations approach. And for the first time, the importance of the informal work group is recognized. Then, the bank wiring room experiment was set up in order to find out how informal work groups operate.

### *(iv) Phase 4. The Bank Wiring Observation Room Experiment (1931-32).*

In this experiment, 14 male workers were formed into a work group and intensively observed for seven months in the bank wiring room, engaged in the assembly of terminal banks for the use in telephone exchanges. The employees were paid individual wages and a bonus based on group effort. It was expected that highly efficient workers would bring pressure on others for increased output and high bonus. However, the expected results did not come about and indeed the group developed specific mechanisms to protect themselves based on certain sentiments:

The rate buster sentiment	:	don't turn out too much work.
The chiseler sentiment	:	don't turn out too little work.
The squealer sentiment	:	don't tell superiors anything that would harm an associate.
The officious sentiment	:	don't act too officious in performing duties, conform rather to work group norms.

Work group norms, beliefs, sentiments had a greater impact in influencing individual behaviour than did the monetary incentives offered by the

management. Thus, the Hawthorne Experiments indicated that employees were not only economic beings but social and psychological beings as well.

The researchers concluded that employees would work better had they believed that the management was concerned about their welfare and supervisors paid special attention to them. This phenomenon (subsequently labeled the Hawthorne effect). Has remained quite controversial to this day.

The concept social man, according to Mayo, motivated by social needs, wanting, rewarding on-the-job relationships and responding more to work-group pressures than to management control – was necessary to complement the old concept of rational man motivated by personal economic needs.

#### ***Criticisms of the Human Relations Approach***

- (i). **Scientific Validity:** Although the Hawthorne Experiments profoundly influenced the managers in managing their employees, the studies had many weaknesses of design, analysis and interpretation. Whether Mayo and his colleagues' conclusions are consistent with their data is still the subject of lively debate and considerable confusion. These studies had a clinical bias as they discounted theory and stressed on radical empiricism. Most of the conclusions are not supported by adequate scientific evidence.
- (ii). **Shortsighted:** The following points confirm the shortsightedness of this approach: (i) it lacks adequate focus on the work, (ii) human relations tend to neglect economic dimensions of work satisfaction and (iii) human relations research is concerned with only operative employees but not managerial and supervisory personnel.
- (iii). **Over concern with happiness:** The Hawthorne studies suggested that happy employees would be productive employees. But studies

have failed to establish a positive relationship between happiness and productivity.

- (iv). **Misunderstanding of Participation:** Many of the post Hawthorne human relationists expected that participation would reduce resistance to formal authority and would ensure worker's support for organizational goals. But recent studies indicate that employees want to be utilized properly.
- (v). **The Mystery surrounding group decision- making:** Research evidence on the superiority of group decision-making to individual decision-making is conflicting and inconclusive. The entire thinking of group decision-making is mystical.
- (vi). **Conflict:** The human relationists failed to recognize positive aspects of conflict like creative force in society. They believed that conflict is always bad and should be minimized.
- (vii). **Anti-Individualist:** The human relations movement is anti-individualist. The concept of individualism and individual behaviour which is predominant in an organizational setting is overridden by the concept of group decision-making and group behaviour. Human relations approach failed to describe completely individuals in the work place.
- (viii). **Total Work Environment is not considered:** Work environment comprises of organizational structure, its culture and climate, labour-management relations, social environment etc. But the human relations approach considered only social environment as the total work environment.

The next approach developed towards management is systems approach. Now, we shall study the system approach to management.



**ACTIVITY - A**

What is Human Relations?

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**ACTIVITY - B**

Describe the Contributions of Human Relations Approach.

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**SYSTEMS APPROACH TO MANAGEMENT**

A system is a set of interrelated but separate parts working towards a common purpose. The arrangement of elements must be orderly and there must be proper communication facilitating interaction between the elements and finally this interaction should lead to achieve a common goal.

Thus, systems approach to management views the organization as a unified, purposeful system composed of interrelated parts. Hence, managers have to deal with the organization as a whole rather than dealing separately with various segments of an organization. This approach also gives the managers to see the organization as a whole and as a part of the larger external

environment. Systems theory reveals to us that the activity of any segment of an organization, effects in different degree, the activity of every other segment.

Systems-oriented managers would make decisions only after they have identified impact of these decisions on all other departments and the entire organization. The essence of the systems approach is that each manager cannot function in isolation and within his organizational boundary of authority and responsibility of the traditional organizational chart. They must interwire their departments with the total organization and communicate with all other departments and employees and also with other organizations.

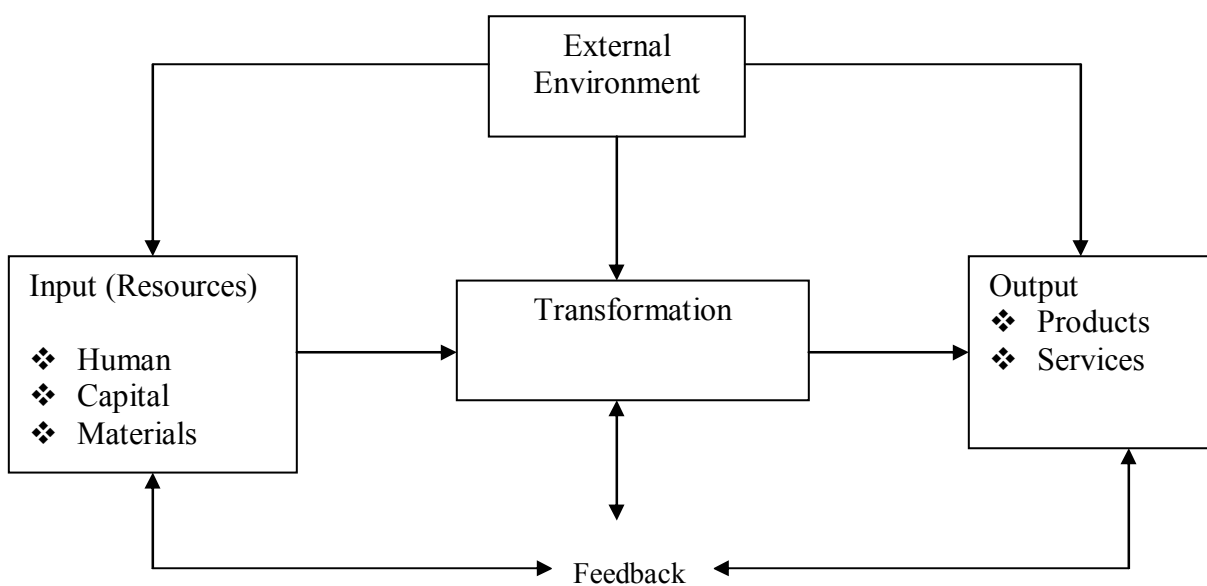
***Key Concepts of Systems Approach***

- (i). **Subsystem:** Subsystems are those parts which make up the whole system. Each system in turn may be a subsystem of a still larger system. Thus, a department is a subsystem of a factor, which is a subsystem of a firm, which is a subsystem of an industry, which is a subsystem of a national economy, which is a subsystem of the world economic system.
- (ii). **Synergy:** Synergy is the situation in which the whole is greater than the sum of its parts. In organizational terms, synergy means the departments that interact co-operatively are more productive than they would be, if they operated in isolation.
- (iii). **Open System:** It is a system that interacts with its environment. All organizations interact with their environment, but the extent to which they do so varies.
- (iv). **Closed System:** It is a system that does not interact with its environment.



- (v). **System Boundary:** It is the boundary that separates each system from its environment. It is rigid in a closed system while flexible in an open system.
- (vi). **Flows:** A system has flows of information, materials and energy. These enter the system from the environment as inputs (like raw materials), undergo transformation process within the system (like production process) and exist in the system as outputs (like products/services).(figure.4.1 shows the flows and feedback in an open system).

Figure: 21.1 The Flows and Feedback in the Open System



- a. **Feedback:** It is the part of system control in which the results of actions are returned to the individual, allowing work procedures to be analyzed and corrected.

System approach helps the dynamic and interrelated nature of organizations to plan for actions and anticipate consequences and mutual effects. It helps the

general managers to maintain balance among various subsystem and the organization. Thus a major contribution of the systems approach results from its strong emphasis on the interrelatedness or mutuality of various subsystems of the organization. Treatment of the organization as an open system is another contribution of systems approach.

### ACTIVITY - C

Define the key concepts of systems Approach

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### CONTINGENCY APPROACH

This approach is also called situational approach. This approach was developed by managers, consultants and researchers who tried to apply the concepts of the major schools to real life situation. They sought to know the causes for the success of methods in one situation and failure in another situations differ, as such a technique that works effectively in one situation will not necessarily work in all cases. Hence managers have to identify the technique which will best contribute to the attainment of the management's goal in a particular situation, under particular circumstances and at a particular time. Classical theorists suggest work implication for increase in productivity whereas behavioural scientists suggest job enrichment. But the manager under contingency approach should find out which method will work better in that particular situation. This approach builds upon systems approach. The composition of a particular situation or system will help to know the techniques best suited to that particular situation or system.

### Systems Approach Vs. Contingency Approach

Clear-cut emergence of contingency approach was noticed after the popularization of systems approach. In fact, contingency approach is an outgrowth of systems approach. The contingency theorists accept open adaptive nature of the organization and the interdependency between various sub-systems of the organization. But they have pointed out that the systems approach does not adequately spell out the precise relationship between organization and its environment. It is too abstract and difficult to apply in practice. They have tried to modify and operationalise the system framework.

The systems approach takes a broader view of organizational variables and employs a comprehensive model of human beings. It takes into account the full range of human needs and motives. On the other hand, contingency approach is concerned mainly with the structural adaptation of organizations to their task environment. But both these viewpoints, are not mutually exclusive. They should be treated as complementary to each other. The manager should use systems and other approaches under the framework of contingency approach.

### ACTIVITY – D

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### OPERATIONAL APPROACH

Koontz and O'Donnell have suggested the operational approach to management and in doing so, they have attempted to draw together the pertinent knowledge of management by relating it to the managerial job, i.e., what managers do. This

approach recognizes that there is a central core of knowledge about managing which exists in managements such as line and staff, patterns of departmentation, span of management, managerial appraisal, and various managerial control techniques. Many other pertinent elements of knowledge are derived from other fields such as application of systems theory, motivation and leadership, decision making, group behaviour and cooperative systems, communication, and mathematical analysis and practices.

Operational management has a central core of knowledge not found elsewhere. It also draws from other fields of knowledge and adopts within it those parts of these fields which are especially useful for managers. The operational approach regards management as a universally applicable body of knowledge that can be brought to bear at all levels of managing and in all types of enterprises. At the same time, the approach recognizes that the actual problems managers face and the environments in which they operate may vary between enterprises and levels, and it also recognizes that application of science by a perceptive practitioner must take this into account in designing practical problem-solutions.

The operational approach is quite similar to the **modified management process** approach advocated by G.R. Terry. It may also be called eclectic process school of management, featuring the basic framework of the process approach modified by certain theories from other appropriate schools of management thought. Eclectic means consisting of “what is selected” and this term has been interpreted to indicate taking the best from what is available in the management thought and working it into a single theory moulded around the process framework as the central core.

### QUANTITATIVE APPROACH

The quantitative or mathematical approach to management developed in the 1950's. It offered systematic analysis and solutions to many complex problems faced by management in the real world. The quantitative school of management is also called operations research (OR) or management science. Mathematical and statistical tools are now applied in the field of management, particularly in decision making on complex problems. More commonly used OR techniques are linear programming, game theory, queuing, simulation and probability. Together, these quantitative decision-making tools are called 'operations research'.

Computer is used to find out solutions to complex management problems. Production scheduling, replacement of capital equipment, inventory control, plant location, transportation problems, warehousing problems, and many other complex managerial problems are being solved today with the active help of operations research and computers. Management scientists, with the help of mathematics, statistics and electronic computer, can now construct mathematical models containing as many as one thousand simultaneous equations. Churchman defined operations research as an application of the scientific method to problems arising in the operations of a system which may be represented by means of a mathematical model and the solving of these problems by resolving the equations representing the system. The development of models to represent a system under study requires the skills of many branches of knowledge such as mathematics, statistics, engineering, economics, physical sciences, behavioral sciences, and cost accounting as well as management experts.

#### **HUMAN RESOURCE MANAGEMENT APPROACH**

Human resource is a principal and central sub-system and resource of an organization. Both the human resource system and the entire organization

operate under the same environmental factors. Greater the effectiveness and productivity of human resources, the more will be the effectiveness of the organization. Most of the managers say, our greatest asset is people. Human resource management approach is developmental. It is concerned with the growth and development of people towards higher levels of competency. Creativity and fulfillment.

The human resource management approach is supportive. It helps employees to develop through training and development and other techniques of human development. It also develops more responsible and committed persons through the creation of conducive organizational climate, strong culture, attractive reward system, free and challenging work environment, team spirit and the like.

This approach assumes that increased capabilities and expanded opportunities for people will lead directly to the improvement of the organizational effectiveness and efficiency. Employee job satisfaction will also be a direct result when employees make use of their resources to the fullest extent. Thus, the human resource management approach reveals that sound management of human resources through proper training and development, judicious salary administration, creating conducive work environment, providing challenging job and maintaining sound industrial relations result in the employee contribution for achievement of organizational goals.

#### **MANAGEMENT SCIENCE APPROACH**

Science is a systematically organized body of knowledge based on proper findings and exact principles and is capable of verification and general application. Science is systematic in the sense that certain relationships between variables has been ascertained, principles and their limitations have been discovered, tested and established. Facts are determined based on events or this

observed initially with the help of scientific methods. The accuracy of the facts are verified through observations on a continuous basis. Thus, the knowledge obtained must be verifiable in scientific method. Any subject to be called science must have the following characteristics:

- a. Systematic body of knowledge
- b. Method of scientific enquiry
- c. Should establish cause and effect relationship
- d. Principles should be verifiable
- e. Should ensure predictable results
- f. Should have universal application.

Management has a systematized body of knowledge pertaining to its field. The scientific character of management is well supported by mathematical models and operations research. A manager can also take appropriate decisions based on decision science like any scientist.

The principles underlying time and motion studies, market research, morale, motivation, job satisfaction etc. are developed based on scientific enquiry. Many management principles like planning, direction, organization, motivation, morale etc., establish cause and effect relationship. Management principles like unity of command, span of control and unity of direction can be verifiable. Those in the category of job satisfaction, morale and job enrichment ensure predictable results. Almost all the management principles are universally applicable.

However, it must be pointed out that management cannot be an exact science like physics, chemistry and natural science. According to Peter F. Drucker, management can never be an exact science. Further, management can not be an exact science as business is highly dynamic and business

conditions change continuously. Management can be a social science as it mostly deals with human beings.

### Ten Management Styles

In this book 'Managing with Style and Making It Work for You', Henry O. Golightly, founder of Golightly and Company International, a consulting firm, lists of the following management styles.

**1. Management by Inaction:** The manager who does nothing, or a least puts off doing anything. He may be too fearful, uncertain, or bored to take action, but he also assumes that "if you ignore a problem, it will go away, or at least, get better". He functions best in areas where change comes slowly and where he works for people who prefer to make their own decisions rather than to delegate them.

**2. Management by Detail:** The manager who researches a problem to death instead of solving it. He works best with people who appreciate his information, don't depend on him for quick or dramatic decisions, and will set deadlines for him.

**3. Management by invisibility:** The manager who make himself inaccessible for various reasons, thus forcing subordinates to do more of the work and take the heat. He works best with people who don't need to interact with him, but he needs the presence of a few people so he isn't allowed to isolate himself totally.

**4. Management by consensus:** The manager who wants decisions to be a group effort. He either wants harmony or is afraid to make decisions by himself. He does not work well with people who won't interact with him or who expect him to generate his own ideas. But he does work well in decentralized companies that stress human relations.

**5. Management by Manipulation:** The manager who is most concerned with getting people to do what he wants. He values control for control's sake. He works with people who are not likely to challenge his methods and may even use them for their benefit. He works best in situation with well-defined goals for which he can aim.

**6. Management by Rejection:** The manager who is overwhelmingly negative. He picks apart all ideas and resists change. He can make a contribution by tempering hastily through-out or ill-advised schemes conceived by more dynamic co-workers.

**7. Management by survival:** The manager who looks out primarily for himself. He has a subordinate mentality a good follower but one unwilling to take risks. He works best "in an organization large and stable enough to value the consistent performer who is not a 'tiger'".

**8. Management by Despotism:** The manager who rules with an iron fist and expects complete subjugation. He works best under people who leave him alone to run things and will get cooperation from subordinates by paying them well.

**9. Management by Creativity:** The manager who manages instinctively. He bases his actions and decisions on hunches, which may or may not be right. He works best with people who will respect his ideas, if not always follow them, who will leave him alone to be creative, or who will organize and implement his good ideas and pass over his bad ones.

**10. Management by Leadership:** The Manager who listens to his subordinates and then shows them direction. He values both interaction and goals. He adopts techniques from all the other management styles and knows when to use them and how to keep them in balance.

### ACTIVITY – E

Explain any two important management styles.

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### SELF - ASSESSMENT QUESTIONS

1. Comment on the Hawthorne Experiments and their outcome.
2. What is human relations? Discuss the contributions to and major concepts in human relations.
3. Appraise the systems approach to management. What are its features?
4. Write short notes on: (i) Contingency approach to management (ii) HRM approach to management (iii) Management Science Approach to management.
5. What is management style? Explain various management styles.

### FURTHER READINGS

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2. Gary Yunker, The Hawthorne Studies: Facts and Myths, Faculty Working Papers, Department of Psychology, Jacksonville State University, Summer, 1985.
3. Seymour Miles, The Manager's job – A System's Approach, Harvard Business Review, January – February 1963, pp.7381.
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### KEY TERMS

- ❖ Management Science Approach
- ❖ Human Relations
- ❖ Work Group
- ❖ Systems Approach
- ❖ Contingency Approach
- ❖ Operational Approach
- ❖ HRM Approach
- ❖ Unity of Command
- ❖ Synergy
- ❖ Open System
- ❖ Closed System
- ❖ Quantitative approach

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**LESSON**

# 22

## JAPANESE MANAGEMENT PRACTICES AND CREATIVITY AND INNOVATION

### LESSON OUTLINE

- Unique features of Japanese management.
- Techniques of Japanese management.
- Weakness of Japanese management.
- Creativity.
- Creativity and Innovation.

### LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Explain the unique features of Japanese management.
- ❖ Understand the inherent weakness of Japanese management.
- ❖ Define Creativity.
- ❖ Explain the climate for organizational Creativity.
- ❖ Understand what is innovation and the rules of stifling innovation.

## INTRODUCTION

It is anybody's knowledge that Japanese economy was reduced to scrambles during the Second World War. The war had a devastating effect in that the whole economy had to be rebuilt from scratches. Looking back, it is quite amazing to note how Japan as a nation could achieve such a tremendous development in all the sectors of the economy in a span of about 50 years. In a way, Japan amply demonstrated to the whole world what a nation could achieve given the commitment and determination of its people. As such, there is no wonder that captains of the industry, management thinkers and practioners, all over the world began to examine the factors that contributed to the Japanese success often described as 'Japanese miracle'.

In the several studies conducted by the management thinkers, it was found that the secret lies in their management system. They have developed a comprehensive system that combines structure and people in a way that, when integrated with Japanese culture, generates a highly productive and efficient organization.

## UNIQUE FEATURES OF JAPANESE MANAGEMENT

The Japanese management system has three levels of attention: an overall focus, general strategies and specific techniques.

### FOCUS

The essence of management in large Japanese organizations is its focus on human resources. Management considers its human resources, more than its

financial or physical resources. The Japanese organizations go all out to develop the human resources. Much of the Japanese management revolves around a distinct approach to personnel management. Such a focus on the human resources helped the Japanese industry to achieve so much, inspite of the poor endowment of natural resources.

### STRATEGIES

The concern for human resources in manifested in three interrelated strategies. First, employees are offered long-term employment. This demonstrates the organization commitment to its people. Second, the organization's philosophy concerning employee needs and the values of cooperation and teamwork are well articulated. Third, close attention is given to hiring new employees who will fit well into the organization and to ensuring that this fit is maintained and enhanced throughout the employ's work life.

#### (i) Long-term employment

The U.S. view towards employee is that when times are bad, employees are laid off or fired. In Japan, except in the most severe economic circumstances, employees are assured of permanent employment. Usually new employees are hired fresh out of educational institutions. The organization than trains them, makes promotions from their internal pool, and emphasizes seniority in the allocation of rewards. Long-term employment results in employees with high morale. From the organizations view point, turnover is low, training costs are low, and organizational cohesiveness is higher.

#### (ii) Organizational Philosophy

Each Japanese organization has a specific philosophy that presents a clear picture of its objectives and values. It acts a superordinate goal – a shared and unifying goal with which all organizational members can identify, support and place above any one person's individual goals. A common theme among



Japanese companies is a heavy emphasis on cooperation and teamwork. Members of the company are part of a family. The team spirit and cooperation characteristic of a family are possible with the security provided by the strategy of permanent employment.

**(iii) Intensive Socialization**

Employees once hired, undergo an initial training programme, the purpose of which is to familiarize the employee with the organization. Over a period the employee identifies himself with the company. He is socialized very intensively.

**TECHNIQUES**

**(i) Job relation and slow promotion**

In Japan, life-time employment means limited upward mobility Movement is predominantly, lateral through job rotation. Promotions when they come are based on seniority.

**(ii) Complex appraisal system**

In addition to the output, employees are appraised on the basis of traits such as creativity, honesty, seriousness, maturity and cooperation with others. Employees' performance in the long run is given more importance, since evaluation is done not exactly on the basis of immediate performance. Employees are naturally motivated to demonstrate loyalty and commitment by their attitudes and actions.

**(iii) Emphasis on work groups**

The Japanese system gives far greater attention to organizing tasks around groups than around individuals. Autonomous work teams are constituted. Tasks are assigned to such teams and the group members of the team then decide among themselves the best way for performing the tasks.

**(iv) Open Communication**

The Japanese system is inherently designed to foster open communication. Job rotation and emphasis on groups means that employees build an informal network that facilitates extensive face to face communication. The physical work setting is also designed to foster communication. People work in cubicles and in open space which facilitate interaction and open communication.

**(v) Consensus Decision-making**

In the Japanese model, the manager, while taking decisions, discusses them to those who may be affected by the decision. When all are familiar with the proposal, a formal request for a decision is made, and as a result of the previous informal preparations, it is easily ratified.

**(vi) Concern for the employee**

Managers spend a great deal of their time talking to employees about everyday matters. They take keen interest in employees needs and problems. In fact, the concern for employees is one of the parameters on which managers performance is appraised. Japanese companies offer a wide range of benefits to their employees. Beyond the usual incentives, a comprehensive offering of cultural, athletic, and recreational activities is very common. For instance, an annual calendar of office events might include several overnight trips, monthly Saturday afternoon recreation, and an average of six office parties, all at the company's expense. In addition welfare measures like subsidized family housing for married, dormitories for the unmarried, nurseries for pre-school children, scholarships for children, mortgage loans and the like speak a lot of about the concern for employees.

William Onchin, an American management thinker had extensively studied organizations and gave a name to their management practices, called Theory 'Z'. He strongly advocated for the adaptation of Japanese practices for the American companies to improve productivity. The differences between

Japanese practices and American management practices are explained in lesson The Best Management Practices.

### ACTIVITY-A

Describe the features and techniques of Japanese Management practices.

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### THE INHERENT WEAKNESSES OF JAPANESE MANAGEMENT

- ❖ The system of life time commitment and groupism encouraged employees depending and suppressed individual creativity;
- ❖ The employment system discriminated against non-life time employees and prevented the formation of a free horizontal labour market;
- ❖ The seniority-based system of rewards created a promotion gridlock for middle management and especially for the younger outstanding employee.

By the mid – 1980s the entire system of Japanese management faced three major challenges:

- ❖ After the dramatic rise in the value of Yen, the problem of cost containment become much more difficult. How to reduce labour cost, and restructure without resorting to massive lay offs has become a problem;
- ❖ How to continue to motivate employees in a new environment in which the system of evaluation and rewards, as well as employee attitudes and expectations, is change;

- ❖ How to redesign employment relationships in a way that would blend the advantages of the order system of dependence in the company with the necessity to promote employees self-reliance, initiative and creativity.

### THE EMERGENCE OF A NEW PARADIGM

- ❖ Companies rely on hiring freezes and on elimination of overtime;
- ❖ Extensive use of job rotation and employee reassignments;
- ❖ Wage, salary and bonus reductions are shared by all groups in the enterprise; Directors, managers as well as workers.
- ❖ Wide use of inter-company manpower, leasing and transfer.
- ❖ Erosion of seniority and promotions.
- ❖ Companies are using various forms of early retirements incentives.

As a result, performance appraisal systems and wage structures are undergoing changes.

- ❖ Company and work-group loyalties are replaced by individualism.
- ❖ Lifetime employment is undergoing change
- ❖ Hiring on the basis of skills for a specific, narrowly defined job opening is growing.
- ❖ Mobility among Japanese managers and professionals is also increasing
- ❖ Japanese employees' preference for security over risk and opportunity is also change.
- ❖ Creation of multi-trade employment system. Employees hired for 'life' can enter the general track and can be moved horizontally (job rotation) as well as vertically (grade promotion).

The changes going on are not designed to destroy the old system but to increase its flexibility. This is very much in keeping with the traditional Japanese approach to change; however fast and deep it is, continuity with the

uniquely Japanese ‘essence’ must be maintained. The new Japanese urgent paradigm will certainly be different. Yet like the modern Japanese home which usually retains a Japanese style room among western systole rooms and furnitures’, the Japanese company will retain a core of Japanese practices.

Source: Tomasz Mroczkowski & Masao Hanaoka, “continuity and change in Japanese Management”, California Management Review, Winter, 1989.

### **ACTIVITY-B**

Write the weakness of Japanese management practice.

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### **CREATIVITY**

The growth and survival of the business in the dynamic environment as of today depends upon the development of new product. Organizations must be always in the lookout of new opportunities and exploiting the opportunities by creating new products and services. Therefore; it is needless to say that new product development holds the key for the survival of an organization. New products do not come about on their own. They are the result of the ingenuity of creative people in the organization. As such, it is obvious that new product development is the function of organizational creativity. In other words, it depends upon how creative an organization is in respect of new ideas because any organization can

be as creative as its people. Having understood the importance of creativity, the organizational context, let us understand the meaning and process o creativity.

### **Meaning of Creativity**

Creativity, in general, may be defined as an “escape from mental struckness”. In the organizational context, it may be viewed as new insights, which points to better ways of dealing with reality. It involves a departure from conventional thinking to non-conventional thinking. It entails establishment of a relationship between the hitherto unrelated things, ideas or concepts. A close examination of many products enable us to understand how too otherwise unrelated things are related to produce a new product. The ubiquitous wet grinder found in any of the kitchens may be cited as a best example where a relationship is established between the electric motor and the conventional stone used, since times immemorial, in the Indian homes for grinding purposes. Similar is the case with the electric dulb and the lens that are combined to develop the overhead projector used in the classrooms. The same logic holds good in the case of many products that we see around.

### **CREATIVITY AND INNOVATION**

Though, at times creativity and innovation are used interchangeably, it is appropriate to know that both are different. While creativity is the generation of a new idea, innovation is the translation of such an idea into a product, service or method of production. In Lawrence B.Mohr’s Woods, creativity implies “bringing something new into being; innovation implies bringing something new into use”. According to Rosabeth Kanter, “innovation is the generation. Acceptance and implementation of new ideas, processes, products or services”.

Such a distinction is necessary because the skills required to generate new idea (creativity) are not the same as those required to make the ideas take

the shape of products or services. Since both creativity and innovation are two different functions, organizations need people good at both the functions. Further, creativity alone does not contribute for organizational effectiveness, unless the creative ideas can in some way be used or implemented./ a new idea, however good it is, must be capable of implementation and must actually be implemented for the organization to benefit from it.

### THE PROCESS

Creative people in general, are few and far between in any society. Many products and services that we take for granted these days are the result of their creative thinking.

It was J.P. Guilford, a noted psychologist who coined the phrases 'divergent' and 'convergent' in the early 1950s to describe different thinking styles. Accordingly, Convergent thinking is the sort of thinking most of us are trained to do. Divergent thinking is quite different from convergent thinking. It is intuitive thinking useful to deal with problems permitting several possible solutions, where novel, unexpected answers emerge.

Physiologically, our brain has two distinct hemispheres: one on the left side, and the other on the right. Psychologists have long back established that these two halves have totally different jobs. The function of the left side of the brain is linear thought, the type of thinking involved when you solve a mathematical problem. The right side of the brain acts or behaves in a different way. Its functions are connected with imagery, and with intuition or 'gut-feel'.

There is an obvious parallel between convergence / divergence and the left brain / right brain model. In other words, convergent thinking takes place in the left brain while divergent thinking in the right brain. Creativity has the following steps.

**Idea generation:** The individual selects a problem to work on or, more likely, becomes aware that a problem or need exists. This is the starting points for the new product development indeed. This refers to the awareness about the 'gaps' in the market.

**Preparation:** The individual becomes obsessed with the idea / problem, recalling and collecting information that seems relevant and dreaming up hypothesis without evaluating them. Openness to experience, tolerance for ambiguity and willingness and courage to redefine the existing concepts, beliefs are the important psychological attributes required at the stage.

**Incubation:** After assembling the available information, the individual relaxes and the subconscious mind becomes active. In this not much understood but crucial step, the individual often appears to be idle or day dreaming, but the subconscious is infact trying to arrange the facts into a new pattern. Psychological freedom and safety are important at this stage.

**Illumination:** This is something which we experience quite often. Often when least expected – while eating, or falling asleep or walking – the new, integrative idea will flash into the individual's mind. Such insights must be recorded quickly, because the conscious mind may forget them in the course of other activities.

**Verification and Application:** The individual sets out to prove by logic or experiment that the idea can solve the problem and can be implemented. Tenacity may be required at this point. It is at this state the individual thatches over to the logical, analytical or convergent thinking. The practical implications are examined what is known as feasibility, both technical and economic.

### ACTIVITY-C

Define creativity and write the process of creativity.

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### ORGANIZATIONAL CREATIVITY AND INNOVATION

Just as individuals differ in their ability to translate their creative talents into results, organizations also differ in their ability to translate the talents of their members into new products, process or services. To make the organizations' creative, managers need to know the steps involved in the individual creativity process analyzed above and take initiative to encourage the process.

#### THE CLIMATE FOR ORGANIZATIONAL CREATIVITY

Creativity is best nurtured in a permissive climate which encourages the exploration of new ideas and new ways of doing things. The following aspects, if practiced, would contribute to fostering creativity in organization.

#### Some Prescriptions

**Accept change:** Organization members must believe that change will benefit them and the organization. Some resistance to change is found in many organizations for fear of losing positions, learning new skills, etc. Such a resistance to change has to be overcome by clarifying the need and urgency for change. The adage that routine drives out the non-routine has to be revised and must be made the other way.

**Encourage new ideas:** Managers in the organization, from top to the down must make it clear in word and deed that they welcome new approaches. To

encourage creativity, managers must listen to their subordinates ideas and suggestions. They must have an open mind.

**Permit more interaction:** A permissive, creative climate can be fostered if individuals have the opportunity to interact with other members of the group and other groups in the organization. Such interaction encourages the exchange of useful information, the free flow of ideas, and fresh perspectives on problems.

**Tolerate failure:** Many new ideas prove impractical or useless. Effective managers accept and allow for the fact that time and resources will be invested in experimenting with new ideas that may not work out.

**Freedom to achieve:** Organization members must have a purpose and direction for their creativity. Proper guidance will help managers gain control over the time and money invested in creative behaviour.

**Offer recognition:** Creative individuals are motivated to work hard on tasks that interest them. But like individuals, they must be remarked for the tasks well done. By offering recognition in such tangible forms as salary increases, recognition, the message can be conveyed that creative behaviour is valued and rewarded.

#### TEN FACTORS STIFLING INNOVATION

Rosabeth Kanter has developed a list of ten managerial attitudes that snuffle creative and innovative attempts. Such attitude will have a dampening affect at organizational effectiveness. An understanding of the following ten points may help you avoid getting into the trap.

1. Regard any new idea from below with suspicion – because it is new, and because it is from below.

2. Insist that people who need your approval to act first go through several other levels of management to get their signatures.
3. Ask departments or individuals to challenge and criticize each other's proposals.
4. Express your criticism freely, and withhold your praise. (That keeps the people on their toes). Let them know they can be fired at any time.
5. Treat identification of problems as signs of failure, to discourage people from letting you know when something in their area is not working.
6. Control everything carefully. Make sure people count anything that can be counted, frequently.
7. Make decisions to reorganize or change policies in secret, and spring them on people unexpectedly.
8. Make sure that requests for information are fully justified, and make sure that it is not given out to managers freely.
9. Assign to lower-level managers, in the name of delegation and participation, responsibility for figuring out how to cutback, lay off, move people around, or otherwise implement threatening decisions you have made.
10. And above all, never forget that you, the higher-ups, already know everything important about this business.

### ACTIVITY-D

Write the factors stifling innovation.

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### SELF-ASSESSMENT QUESTIONS

1. Describe the salient features of the Japanese management practices.
2. Critically examine the feasibility of Japanese management approaches for the management of Indian industry.
3. Explain the importance of creativity in the organizational context.
4. Describe the process of creativity and the important steps to be taken to develop new products and services.
5. Explain the various measures to promote innovative spirit in the organizations. Also describe the factors that stifle innovation.

### FURTHER READINGS

1. Harold Koontz and Heinz Weihrich, Essentials of Management, McGraw-Hill, Singapore, 1990
2. Global Strategic Management Case Studies on Fortune 500 Companies, Transworld University, Volume VI.

### KEY TERMS

- Job Rotation
- Work Groups
- Appraisal System
- Creativity
- Innovation

## LESSON

## 23

ENTREPRENEURIAL MANAGEMENT AND  
BENCHMARKING

## LESSON OUTLINE

- Importance of entrepreneur.
- Entrepreneurship
- Characteristics of entrepreneur.
- Intrapreneurship
- Benchmarking
- Advantages of Benchmarking
- Types of Benchmarking
- Phases of Benchmarking
- Benchmarking Model

## LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Explain the importance of entrepreneur.
- ❖ Understand the concept of entrepreneurship.
- ❖ Give the characteristics of

## INTRODUCTION

Entrepreneurial development is a complex phenomenon. Productive activity undertaken by him and constant endeavour to sustain and improve it are the outward expression of this process of development of his personality. Such process is crystallization of social milieu from which he comes, family imbibes, make-up of his mind, personal attitudes, caste system, educational level, parental occupation, and so on.

The words entrepreneur, entrepreneur and entrepreneurship have acquired special significance in the context of economic growth in a rapidly changing socio-economic and socio-cultural climates, particularly in industry, both in developed and developing countries. The experience in the industrialized countries like the United States of America, Germany, Japan and the United Kingdom are authoritatively cited in support of this claim. An in-depth study of the subject thus becomes not only relevant but also necessary.

**Who is an Entrepreneur?**



The entrepreneur brings in overall change through innovation for the maximum social good. Human values remain sacred and inspires him to serve society. He has firm belief in social betterment and he carries out this responsibility with conviction. In the process, he accelerates personal, economic as well as human development. The entrepreneur is a visionary and an integrated man with outstanding leadership qualities. With a desire to excel, the entrepreneur gives top leadership qualities. With a desire to excel, the entrepreneur gives top priority to Research and Development. He always works for the well-being of the society. More importantly, entrepreneurial activities, encompasses all fields/sectors and fosters a spirit of enterprise for the welfare of mankind.

#### **Importance of an Entrepreneur**

Entrepreneur is one of the most important inputs in the economic development of a country or of regions within the country. Entrepreneurial competence makes all the difference in the rate of economic growth. In India, state and private entrepreneurship co-exist. The small-scale industrial sector and business are left completely to private entrepreneurs. It is, therefore, in this context that an increasingly important role has been assigned to the identification and promotion of entrepreneurs for this sector.

The need for a broad-based entrepreneurial call in the India arises from the need to speed up the process of activating the factors of production, leading to a higher rate of economic growth, dispersal of economic activities, development of backward and tribal areas, creation of employment opportunities, improvement in the standard of living of the weaker sections of the society and involvement of all sections of the society in the process of growth.

Several factors go into the making of an entrepreneur. Individuals who initiate, establish, maintain and expand new enterprises constitute the entrepreneurial class. The socio-political and economic conditions, the availability of industrial technology and know-how, state of art and culture of business and trading, existence of markets for products and services and the incentives and facilities available for starting an industry or business, all have a bearing on the growth of entrepreneurship. A conducive environment is created through the policies and interest of the government in economic and industrial development.

#### **ENTREPRENEURSHIP**

Entrepreneurship may be defined as the ability to use the factors of production – and, labour, and capital – to produce new goods and services. Entrepreneurship may also be defined as the managerial process of organizing, operating, and assuming the risk of a new business venture. An entrepreneur is a person who is involved in entrepreneurship. It is important to note the difference between entrepreneurship and management. For example:

Entrepreneurship... involves combining to initiate changes in production where [management] involves combining to produce. Management therefore refers to the ongoing coordination of the production process, which can be visualized as a continual combining of the factors of production. But entrepreneurship is a discontinuous phenomenon, appearing to initiate changes in the production process.... and then disappearing until it reappears to initiate another change.

Another way to distinguish between management and entrepreneurship is to recognize that entrepreneurs create wealth and managers administer it. It is the entrepreneur who creates the new products, the new service. It is the entrepreneur who finds a new use for an old product or process. It is the entrepreneur who has the courage to try the new, the creative, the innovative, as illustrated in figure – 23.1

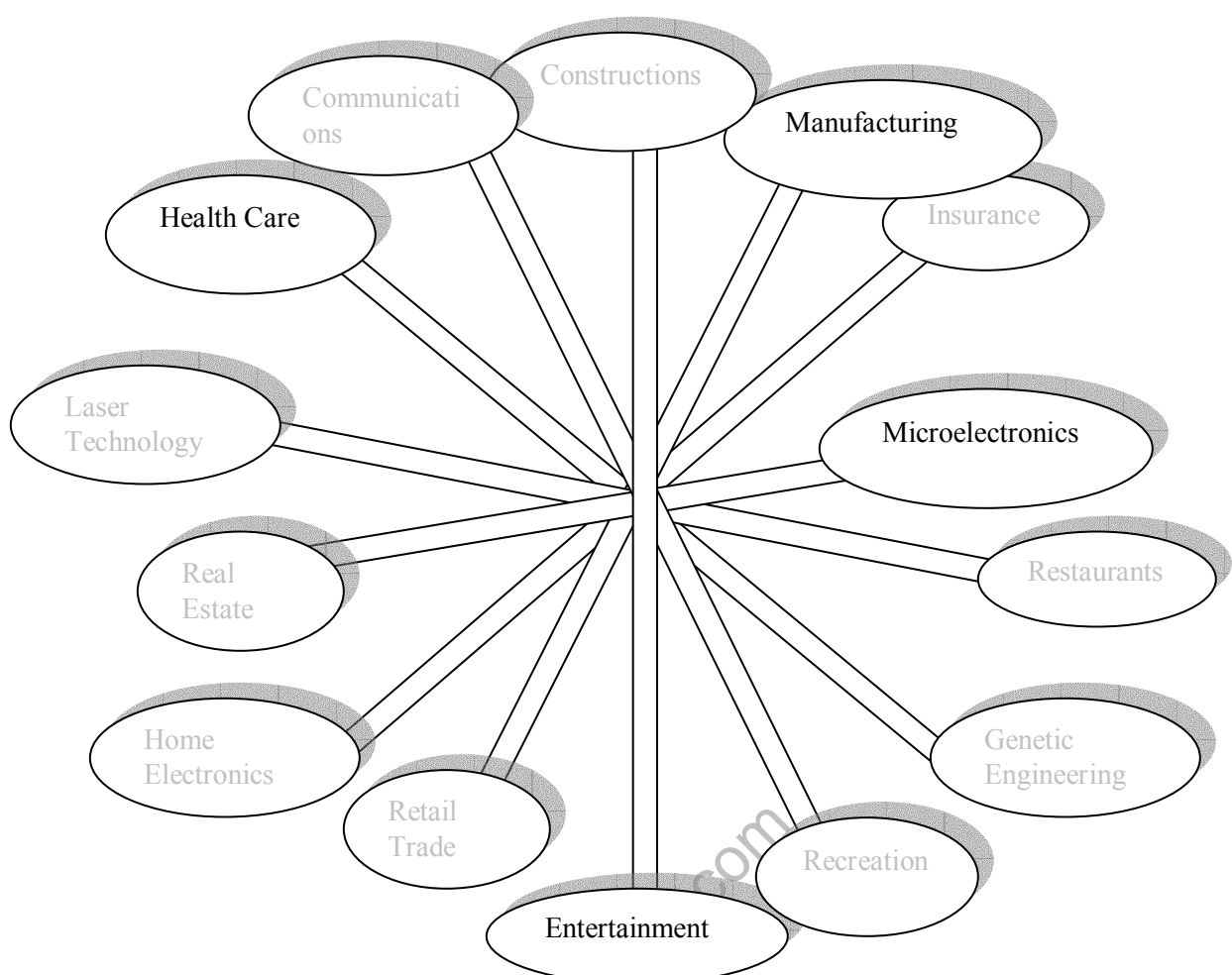


Figure – 23.1 World of Entrepreneurs limited only by imagination (Source: Hold, 1990, p679).

Above all, entrepreneurs deal with change. According to Robert Wilken (1979), entrepreneurs contribute change that can be categorized into five types;

1. **Initial expansion** – the original production of goods.
2. **Subsequent expansion** – the subsequent change in the amount of goods produced.

3. **Factor innovation** – the increase in supply or productivity of the factors of production.
  - (a) **Financial** – the procurement of capital from new sources or in new form.
  - (b) **Labour** – the procurement of labour from a new source or of a new type; the upgrading of existing labour.
  - (c) **Material** – the procurement of old material from a new source or the use of a new material.
4. **Production innovations** – changes in the production process.
  - (a) **Technological** – the use of a new production technique.
  - (b) **Organizational** – change in the form of structure or relationships among people.
5. **Market innovation** – changes in the size or composition of the market.
  - (a) **Product** – the production of a new good or the change in quality or cost of existing goods.
  - (b) **Market** – the discovery of a new market.

#### Concept of Entrepreneurship

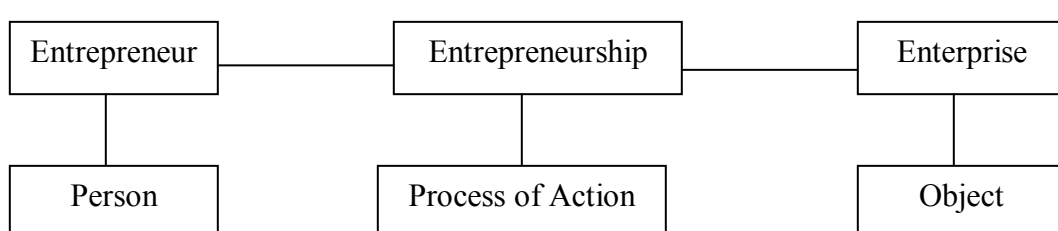


Figure – 23.2 Concept of Entrepreneurship

#### CHARACTERISTICS OF THE ENTREPRENEUR

Considerable research has been dedicated to the task of identifying the traits and characteristics of the typical entrepreneur. According to John Hornaday (1982, p 28), the characteristics of successful entrepreneurs are as follows:

Self-Confidence  
 Energy, diligence  
 Ability to take calculated risks  
 Creativity  
 Flexibility  
 Positive response to challenges  
 Dynamism, leadership  
 Ability to get along with people  
 Responsiveness to suggestions  
 Responsiveness to criticism  
 Knowledge of market  
 Perseverance, determination  
 Resourcefulness  
 Need to achieve  
 Initiative  
 Independence  
 Foresight  
 Profit orientation  
 Perceptiveness  
 Optimism  
 Versatility  
 Knowledge of product and technology

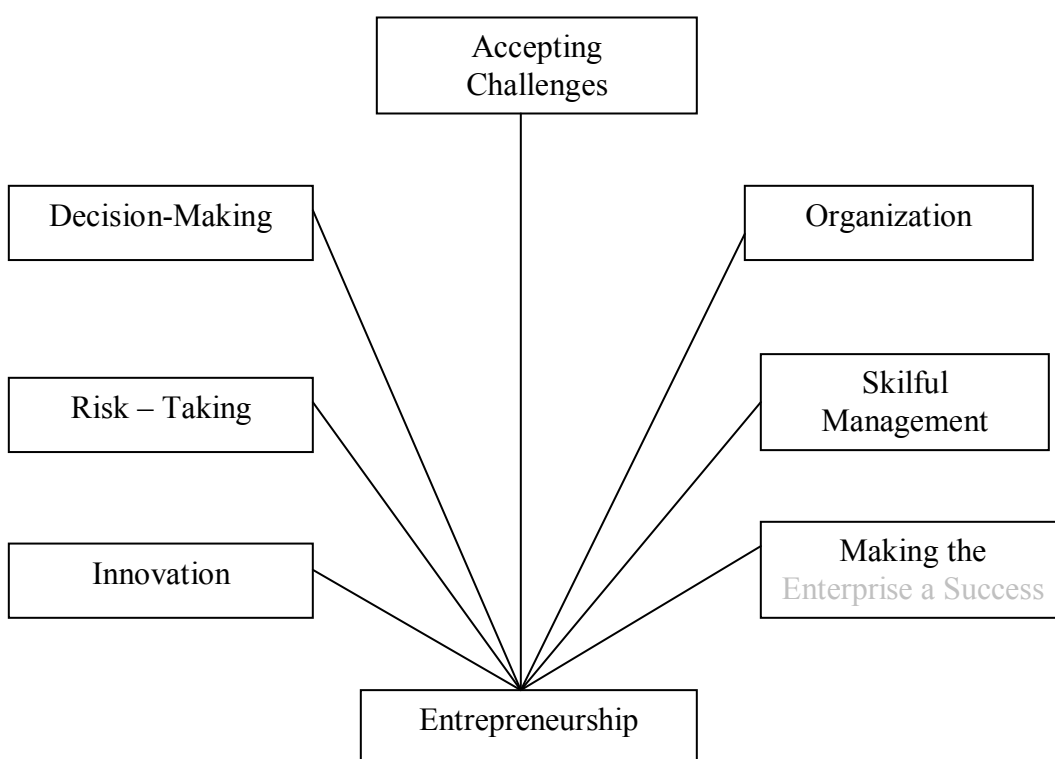


Figure – 23.3 Characteristics of Entrepreneurship

Most entrepreneurial activity of the past has largely been limited to small organizations, because size has typically been the enemy of creation and innovation. With the increasing competitiveness of the global arena of business, large firms are seeking to make use of this innovative trend. Entrepreneurship is the inculcation of the entrepreneurial spirit within a large organization.

#### Entrepreneurial Process

The process of entrepreneurship involves both analytical and creative activities. According to Pierce and Dunham (1990, p 535), the entrepreneurial process takes place in four sequential steps:

##### *Step 1: Solo Phase*

During this step, the typical entrepreneur works alone. The first task for the entrepreneur is to clearly identify the entrepreneurial idea. Then, the idea is developed and subjected to three feasibility tests.

1. Will the idea provide clearly identifiable benefits for customer or clients?
2. Is the idea compatible with the organization's resources and overall strategy?
3. Are the idea and its potential implementation compatible with the entrepreneur's personal character and skills?

##### *Step 2: Network Phase*

During this step the entrepreneur shares the idea with other organizational members, seeking feedback and suggestions for improvement of the idea.

##### *Step 3: Bootlegging Phase*

During this step, the entrepreneur begins to form a project team and some levels of product prototype development outside the normal operational mode of the company.

##### *Step 4: Formal Team Phase*

During this step, the idea becomes a formal organizational venture with formal organizational support.

#### ACTIVITY-A

Define entrepreneur and entrepreneurship.

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**ACTIVITY-B**

Write the characteristics of entrepreneur.

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**BENCHMARKING**

Benchmarking is a systematic method by which organizations can measure themselves against the best industry practices. Benchmarking is the search for best practices that will lead to superior performance. Benchmarking helps a company learn its strengths and weaknesses and those of other industrial leaders and incorporate the best practices into its own operations. It promotes superior performance by providing an organized framework through which organizations can learn how the “best-in-class” do things, understand how these best practices differ from their own and implement changes to close the gap. It is a tool for continuous improvement.

**Definition:**

Benchmarking is defined as “measuring our performance against that of best-in-class companies, determining how the best-in-class achieve those performance levels and using the information as a basis for our own company’s targets, strategies and implementation.” Or more simply, “the search of industry best practices that lead to superior performance”. The term “best practices” refers to the approaches that produce exceptional results, are usually innovative in terms

of the use of technology or human resources and are recognized by customers or industry experts.

**What is a benchmark? :** A benchmark is a point of reference against which things are measured. In business, these points of reference or standards can take many forms. They are measured by questions about the product or service (e.g. how many how much time, how much money, how reliable or how well made is it?). By studying other organizations and comparing the answers to these questions, we will be able to measure our performance against that of others.

As a result, we will be able to set new goals and adapt the best practices to our organization. This, in turn, will help us to satisfy our customers with the best quality, cost product and service.

**ACTIVITY – C**

Define Benchmarking and Benchmark.

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**Background of Benchmarking**

The concept of benchmarking is not new. In the early 1800s, Francis Lowell, a New England industrialist, traveled to England to study manufacturing techniques at the best British factories. Henry Ford created the assembly line after taking tour of a Chicago slaughterhouse and watching carcasses hung on hooks mounted on a monorail move from one workstation to another. Toyota’s just-in-time production systems was influenced by the replenishment practices of U.S. supermarkets. Modern benchmarking was initiated by Xerox (in the 1980s), an eventual winner of the Malcolm Baldrige national Quality Award.

IBM, Motorola and Xerox became the pioneers in instituting the benchmarking process. Xerox initially studied their direct competitors and discovered that:

- ❖ their unit manufacturing cost equaled the Japanese selling price in the United States.
- ❖ the number of production suppliers was nine times that of the best companies
- ❖ assembly line rejects were 10 times higher
- ❖ product lead times were twice as long and
- ❖ defects per hundred machines were seven times higher.

These results helped them to understand the amount of change that would be required to set realistic targets to guide their planning efforts.

#### **Advantages of Benchmarking**

- (i) Benchmarking promotes a thorough understanding of the company's own process i.e., the company's current profile (strength and weaknesses) is well understood.
- (ii) Benchmarking process involves limitation and adaptation of the practices of superior competitors, rather than invention, thereby saving time and money for the company practicing benchmarking.
- (iii) Intensive studies of existing practices often lead to identification of non-value-added activities and plans for process improvement.
- (iv) Benchmarking enables comparison of performance measures in different dimensions, each with best practices for that particular measure. It involves comparison with several companies who are best for the chosen measure. (some common performance measures are return on assets, cycle time, percentage of on-time delivery, proportion of defects, percentage of damaged goods and time spent on administrative functions).

- (v) Benchmarking focuses on performance measures and processes and not on products. Thus, it is not restricted to the industry to which the company belongs. It extends beyond these boundaries and identifies organizations in other industries that are superior with respect to chosen measures.
- (vi) Benchmarking allows organizations to set realistic, rigorous new performance targets and this process helps convince people of the credibility of these targets.
- (vii) Benchmarking allows organizations to define specific gaps in performance and to select the processes to improve. It enables the company to redesign its products and services to achieve outcomes that meet or exceed customer expectations.
- (viii) Benchmarking provides a basis for training human resources.

#### **ACTIVITY – D**

List the Advantages of Benchmarking

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#### **Limitations of Benchmarking**

- (i) The primary limitation or weakness of benchmarking is the fact that best-in-class performance is not a static but a moving target.
- (ii) Benchmarking is not a panacea that can replace all other quality efforts or management processes that can improve the competitive advantage of a company.
- (iii) Benchmarking is not an “instant pudding”.

**Pitfalls of benchmarking**

The potential pitfalls of benchmarking include the failure to do the following:

- (i) Involve the employees who will ultimately use the information and improve the process (participation can lead to enthusiasm).
- (ii) Relate process improvement to strategy and competitive positioning.
- (iii) Define the firm's own process before gathering data for the purpose of comparison.
- (iv) Perceive benchmarking as an ongoing process and not as an one-time project with a finite start and completion dates.
- (v) Expand the scope of the companies studied instead of confining to one's own areas, industry or to direct competitors, which is a narrow approach in identifying excellent performance that are appropriate to one's own processes.
- (vi) Perceive benchmarking as a means to process improvement, rather than an end itself. Benchmark (what can be).
- (vii) Set goals for closing the gap between the existing performance (what is) and the benchmark (what can be).
- (viii) Empower employees to achieve improvements that they identify and for which they solve problems and develop action plans.

**Approach of Benchmarking**

To compare one's business practices with those of other organizations, four common approaches to benchmarking are adopted. They are:

- (i) Internal benchmarking
- (ii) Competitive benchmarking
- (iii) Non-competitive benchmarking and
- (iv) World-class benchmarking.

**Internal benchmarking:** is done within one's organization or perhaps in conjunction with another division or branch office. Internal benchmarking is the easiest to conduct since data and information should be readily available and confidentiality concerns are minimized.

**Competitive benchmarking:** involves analyzing the performance and practices of best-in-class companies. Their performance becomes a benchmark to which a firm can compare its own performance and their practices are used to improve that firm's practices. However benchmarking the competition could be difficult since it might be impossible to collect or learn a competitor's secrets. This type of information can often be obtained through a confidential survey of all competitors, usually conducted by a third party consulting firm.

**Non-competitive benchmarking:** is learning something about a process a company wants to improve by benchmarking including –

- ❖ a related process in the industry with a firm, the company does not directly compete with
- ❖ a related process in a different industry
- ❖ an unrelated process in a different industry.

An advantage of this type of benchmarking is that new processes which could easily be adapted to one's organization might be discovered.

**World-class benchmarking:** This approach to benchmarking is the most ambitious. It involves looking towards the recognized leader for the process being benchmarked – an organization that does it better than any other.

**ACTIVITY – E**

Describe the approaches of Benchmarking

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**Types of Benchmarking**

Three major types of benchmarking that have emerged in business are:

- (i) Performance benchmarking or operational benchmarking.
- (ii) Process benchmarking or functional benchmarking and
- (iii) Strategic benchmarking.

**Performance benchmarking** involves pricing, technical quality, features and other quality or performance characteristics of products and services. Performance benchmarking is usually performed by direct comparisons or “reverse engineering” in which competitor’s products are taken apart and analyzed. This process is also known as “operational benchmarking” or “competitive benchmarking” and involves studying of products and processes of competitors in the same industry.

**Process benchmarking** centres on work process such as billing, order entry or employee training. This type of benchmarking identifies the most effective practices in companies that perform similar functions, no matter in what industry. For example, the warehousing and distribution practices of L.L.Bean were adapted by Xerox for its spare parts distribution system. Texas Instruments studied the kitting (order preparation) practices of six companies, including Mary Kay Cosmetics and designed a process that captured best practices of each of them and thereby cutting the cycle time by 50 percent. Companies should not aim benchmarking solely at direct competitors and it would be mistake if they do so. If a company simply benchmarks within its own industry, it may be competitive and have an edge in those areas in which it is the industry leader. However, if benchmarks are adopted from outside the industry, a company may

learn ideas and processes as well as new applications that allow it to surpass the best within its own industry and to achieve distinct superiority.

**Strategic benchmarking** examines how companies compute and seeks the winning strategies that have led to competitive advantage and market success. One way to determine how well a company is prepared to compete in a segment and to help define a best-in-class competitor is to construct a Key Success Factor (KSF) matrix similar to the one shown in figure – 23.4

Figure – 23.4 Key Success Factor Matrix					
	Competitive Analysis – Computer Industry... Segment				
Key Success	Performance Rating				
	Weight	Our company	Competitor A	Competitor B	Competitor C
Sales force					
Distribution					
Suppliers					
R & D					
Service					
Cost structure					

**Areas to benchmark:** Specific areas to benchmark at the operating level might include the following:

- (i) Customer service levels
- (ii) Inventory management
- (iii) Inventory control (extent of automation)
- (iv) Purchasing
- (v) Billing and collection
- (vi) Purchasing practices
- (vii) Quality process
- (viii) Warehousing and distribution and
- (ix) Transportation.

**Guidelines to benchmarking:** Companies approach benchmarking in different ways. IBM has a four step approach. AT & T has a nine step approach and Xerox a ten step approach. All these approaches have the general guidelines given below:

- (i) **Do not go on a fishing expedition:** When preparing a benchmarking study, pick up a specific area in the organization that needs improvement. This may be quality, customer satisfaction, accounts payable or delivery time. Then do your homework, including thoroughly reviewing your own process and procedures before picking a company that excels in the particular area chosen.
- (ii) **Use Company people:** The people who are going to implement changes need to see and understand for themselves, so it is they who should make the visits to other firms which are benchmarked and have the discussions with the concerned people. Further the visits should be short and the working teams small.
- (iii) **Exchange information:** You should be ready to exchange information and provide answers in turn to any questions you might ask another company.
- (iv) **Legal concerns:** Avoid legal problems which might arise as a result of discussions that might imply price fixing, market allocation or other illegal activities. This could lead to problems. Do not expect to learn much about new products of competitors by the benchmarking process. Most benchmarking missions focus on existing products, business practices, human resources and customer satisfaction.
- (v) **Confidentiality:** Respect the confidentiality of data obtained. Companies that agree to share information with you may strongly object if that information leaks out to a competitor.

### Phases of Benchmarking

There are four phases of Benchmarking they are:

- (i) **Planning:** Identify the product, service or process to be benchmarked and the firm(s) to be used for comparison, determine the measure of performance for analysis and collect the relevant data.
- (ii) **Analysis:** Determine the gap between the firm's current performance and that of the firm(s) benchmarked and identify the causes of significant gaps.
- (iii) **Integration:** Establish goals and obtain the support of managers who must provide the resources for accomplishing the goals.
- (iv) **Action:** Develop cross-functional teams of those most affected by the changes, develop action plans and team assignments, implement the plans monitor progress and recalibrate benchmark as improvements are made.

**Benchmarking Process:** Specific steps in benchmarking vary from company to company but the fundamental or basic approach is the same. One company's benchmarking may not work at another organization because of differences in their operating concerns. Successful benchmarking reflects the culture of the organization, works within the existing infrastructure and is harmonious with the leadership philosophy.

Motorola Inc., uses a five step benchmarking process: They are:

- (i) decide what to benchmark
- (ii) select companies to benchmark
- (iii) obtain data and collect information
- (iv) analyze data and form action plans and
- (v) recalibrate and start the process again.

**ACTIVITY – G**

Explain the phases and process of benchmarking

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**The Seven Step Benchmarking Model**

Benchmarking is an ongoing process that requires data gathering, goal setting and analysis. These are accomplished by a seven step model. The seven steps are:

- Step 1 : Identify what to benchmark
- Step 2 : Determine what to measure
- Step 3 : Identify who to benchmark
- Step 4 : Collect the data
- Step 5 : Analyze data and determine the gap
- Step 6 : Set goals and develop action plan and
- Step 7 : monitor the process.

**Factors to be kept in mind to ensure success with benchmarking**

- (i) Benchmarking must have the full support of senior management. management should also be actively involved.
- (ii) Training is critical for the benchmarking team and process.
- (iii) Benchmarking should be a team activity. The team should include management, experts, consultants and especially those people directly involved in the process.

- (iv) Benchmarking is an ongoing process. It must be part of an organization's strategy and development. If well monitored, it serves as an important segment of a total quality management system.
- (v) Benchmarking efforts must be organized, planned and carefully managed. It is a structured approach and requires planning and monitoring just like any other management tool:

Ultimately, benchmarking can be your best weapon against complacency. Used correctly, benchmarking can lead you to the competitive edge in today's business market place.

**SELF – ASSESSMENT QUESTIONS**

1. What is entrepreneurship? Explain its relevance to management.
2. What are the characteristics of entrepreneur?
3. What is meant by “benchmarking” and Benchmark.
4. Trace the evolution of ‘benchmarking’ giving some examples of U.S. firms who could achieve dramatic results by implementing benchmarking process.
5. Discuss the reasons for benchmarking stating their advantages and limitations.
6. Mention some of the pitfalls of benchmarking.
7. What do you understand by “approaches of benchmarking”. Explain.
8. Discuss the various types of benchmarking.
9. List out some of the guidelines to benchmarking.
10. What are the four phases of benchmarking? Discuss briefly.

**FURTHER – READINGS**

1. Gene Burton, Manab thakur, Management Today, Tata, Mc-Graw Hill, New Delhi, 1998.

2. Vasant Desai, Small-Scale Industries and Entrepreneurship, Himalaya Publications House Bombay, 1996.

#### KEY TERMS

- |                         |                            |
|-------------------------|----------------------------|
| ❖ Entrepreneur          | ❖ Competitive Benchmarking |
| ❖ Entrepreneurship      | ❖ World-Class Benchmarking |
| ❖ Entrepreneurship      | ❖ Performance Benchmarking |
| ❖ Benchmarking          | ❖ Process Benchmarking     |
| ❖ Benchmark             | ❖ Strategic Benchmarking   |
| ❖ Internal Benchmarking |                            |

## LESSON

# 24

### THE BEST MANAGEMENT PRACTICES

#### LESSON OUTLINE

- Japanese Management
- Samsung adoption of Theory Z
- Japanese Management Practice
- Toshiba Corporation
- Japanese Vs US Management Practices
- Theory Z

#### LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Understand the Concept of Japanese Management.
- ❖ Explain the case of Samsung adoption of Theory Z.
- ❖ Describe the Japanese Management Practice.
- ❖ Explain how Toshiba is distinguished Japanese corporation.
- ❖ Compare Japanese Management and US Management Practices.

## INTRODUCTION

When we talk about the best management practices in world, Japanese Management Practices and American Management Practices stand first. In this contest it should be noted that some of the American companies and the companies of other countries are adapting a combination of both Japanese and American styles which Guchi called theory Z. As such in this lesson Japanese management practices and Japanese Vs American Management practices are explained.

### Japanese Management

The managerial practices followed in Japan are quite different from those followed in economically advanced countries in the west. In recent years, more and more companies have started using Japanese management practices to increase productivity. For example Samsung a Korean Company used theory Z to improve its efficiency.

### Samsung Uses Theory Z to Become a Living Organization

Many American firms are beginning to experiment with Japanese management philosophy. In order to get the best out of both Japanese and American management philosophies, many American firms have adopted Theory Z which combines both these philosophies. Some Korean companies, such as Samsung Group, LuckyGoldstar, Hyundai, Daewoo and Samsung have also adopted Theory Z. The Samsung Group has achieved success through the adoption of

Theory Z. In line with the Theory Z style of management, the company follows the practices described below.

- ❖ Employment in Samsung is neither short-term nor lifelong in nature. Samsung is one of the preferred places of employment for university graduates because of its prestigious image and its attractive salaries and benefits. This aspect of Samsung motivates most of its employees to remain with it for a long time. At the same time, Samsung cannot be regarded as a place for lifetime employment because its policy of strict performance appraisal leads to vigorous competition among the employees, causing many employees to exit the organization.
- ❖ Unlike other organizations, Samsung practices collective decision-making. All decisions in the organization begin with the circulation of a written proposal from the bottom of the organization to the top. The proposal moves upwards only when it has been approved by a manager at each stage. An important aspect of decision-making at Samsung is that the task of writing the proposal is given to the youngest and newest member of the department.
- ❖ At Samsung, clear lines of authority and responsibility are established. The organization does this by setting up a responsibility centre system, an individual reward system and an individual responsibility centre system. The establishment of such line of authority and responsibility encourages managers to work independently).
- ❖ The frequency of evaluation at Samsung is low. This is because the Chairman believes that it takes time to accurately assess the performance of an employee. Hence, at Samsung, an employee is

evaluated only after he has been trained and his performance has been observed for a certain number of years.

- ❖ Employees have a specialized career path. At Samsung, the specialties of employee re respected and people are given positions which suit them and in which they can work effectively.
- ❖ The organizational controls both informal and formal.

Samsung combines the Japanese style of future direction and American style of quantifiable objectives. Informal evaluation at Samsung is supplemented with various formal evaluation methods such as the personnel evolution system. This system includes manager appraisal, output appraisal and self-evaluation.

Adapted from Mushin Lee, “Samsung Uses Theory Z to Become Living Organization,” organization,”: Industrial Management Vol. 34, Issue 5(Sep/Oct 1992) ;p29,2p

### ACTIVITY-A

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Describe how Samsung uses Theory Z to become living organization.

The following re some of the Japanese Management Practices commonly cited by researchers and writers.

#### The Japanese Management Practices

They are circle employees immediately after gradation and guarantee employment until retirement, and mandatory retirement. The employers and

employees have an unwritten mutual understanding regarding their execrations about the job. An employee spends his entire working life with a single enterprise in life time employment. This helps generate a feeling of job security in the employees and a feeling of belongingness towards the enterprise. The concept of lifetime employment brings about “harmony” in the enterprise. With this harmony employee works with loyalty and it helps him/her identity closely with the aims of the organization. The success of this practice depends on both employer and employee

The disadvantages as the lifetime employment is that it increases the labour cost of the company firm is forced to maintain a large workforce even though it may not have work to keep them all sufficiently occupied. Therefore, many firms have begun to question the practicality of the concept of lifetime employment. This permanent employment policy is generally used only be large firms.

#### Seniority system

All privileges are give to order employees based on security. Promotion and wage increases are based on an employee's length of service in the company, not job performance. The seniority system seems to be unfair to young and able people. But they are to some extent compensated psychologically by being assigned challenging tasks and being placed in positions which everybody in the company knows lead to future managerial positions. Almost all promotions to management jobs are from within the organization.

#### Continuous training

This is secret of the success of Japanese managers. There is continuous training to Japanese management practice. In Japanese firms every young manager has a “godfather,” who is never his boss or anyone in the direct line of authority. The “godfather” is not part of the top management, but is highly respected by others

and is over 45 years of age. He is expected to advise, counsels and looks after his “godchild.

#### **Emphasis on group work**

In most Japanese organizations tasks are assigned to small group of employees. They all feel like a family members and feel pride of working there.

#### **Decision-making**

The practice of managerial decision-making in Japan is built on the concept that new should come primarily from personnel belonging to lower levels in the hierarchy. They feel that change and improvement come from this. The lower level employees prepare proposals for higher-level personnel. The “ringi system” refers to decision-making by consensus.

The word ringi consists of two parts ‘rin,’ which means submitting a proposal to one’s superior and getting his approval, and ‘gi,’ meaning deliberations and decisions. Before a proposal is finally approved, it is discussed at many group meetings. Once the proposal receives the green signal, things move fast. Thus, Japanese firms expect decision-making to take place in groups and decisions to be based on principles of full information-sharing and consensus.

#### **Performance evaluation by complicated interview system**

When job descriptions are not well-defined. Because of this, when tasks are performed by groups, it becomes difficult to evaluate individual job performance objectively. The evaluation of workers and managers in Japanese corporations takes a very long time – upto ten years – and requires the use of qualitative and quantitative information about performance.

This is the reason why promotion in Japanese firms is relatively slow, and promotion decisions are made only after interviews with many people who have had contact with the person being evaluated. Since jobs are done on a group basis, individual merit rating system cannot be used. In addition, since no one tries to demonstrate individual brilliance or dynamic leadership, it is extremely difficult to isolate individual competence or job responsibility to carry out a fair rating of each employee.

#### **Concept of Father Leadership**

As a Kacho (manager), the task of a leader is not only to supervise his people at work, but also to show fatherly concern for their subordinate’s private life. Since, promotion is based on seniority, it is not easy to move on to a kacho position. Sufficient training and experience are essential for an individual to be promoted to this position.

#### **Employee benefits while on the job and after retirement.**

Japanese companies provide substantial benefits to their employees. Employees are provided benefits such as family housing and transportation allowances. Some companies also provide bachelor accommodations, scholarships for employees’ children, and low-interest housing loans. Salary enhancements become rapid after about seven years of employment with the firm. Since the seniority-based wage system assumes that the longer the experience, the more valuable the employee. Japanese factory workers also get considerable amount overtime work pay.

Some Japanese companies pay upto half the interest charged on mortgages for all employees. As an employee moves to the top of the corporate ladder, his company provides him with a car and a chauffeur, and membership in social clubs including a golf club. Highly qualified managers may retain their positions till their death or until they retire voluntarily, in which case there is a handsome



pension retirement income. In case of voluntary retirement at 55, a lumpsum payment is made. In addition, Japanese companies attempt to place these employees in subsidiary company positions or in advisory positions.

#### **Simple and flexible organization**

In Japanese firms, very often, people are trained to be generalists. For this reason, the organization structure in Japan is relatively simple and flexible, and it is possible for people to take up a new challenge or a new task by forming a new formal or informal group. Informal organizations (referred to as habatsu), wield considerable power in formal organizations. Habatsu membership doesn't overlap with other memberships and there is total commitment from the employees. The habatsu leader enjoys a high status in the formal organization and he patronizes his followers. Following case explains the Japanese management practices at Toshiba.

#### **Toshiba: The Japanese Company with a Difference**

Toshiba Corporation is Japan's oldest manufacturing enterprise. It resembles many other distinguished Japanese corporate giants, with regard to its range of activities. The well-diversified company is involved in a wide variety of business, ranging from common household items to high technology products such as computer chips, laptops and hospital equipment. Like other famous Japanese corporations, Toshiba followed practices such as lifelong employment, long working hours and a rigid pay ladder. The company's uniqueness lay in the manner in which it recruited employees and the conditions it created for encouraging innovation. Unlike many comparable Japanese companies, which were vertically integrated and usually worked in isolation, Toshiba never

hesitated to turn to outside sources to access technological expertise. The company has a history of forming strategic alliances with leading foreign companies. Some of Toshiba's partners include IBM, Time Warner, General Electric, Siemens, United Technologies, Ericsson, Olivetti and Motorola. Toshiba, IBM and Siemens eased trade tensions among Japan, the US and Europe by signing an eight year, \$1 billion deal in 1992. The company also tied up with IBM and Apple to make multimedia equipment. In the same year, the company entered the US entertainment industry, paying \$500 million for a 6.1% stake in Time Warner.

The company did not give too much importance to selecting top ranking students from prestigious universities. Most of the shop floor workers at Toshiba were high school graduate. They joined the company at the age of eighteen and were given on-the-job training for a year in key technical skills such as welding, lathe operations and hand finishing operations. After a few years on the job, Toshiba arranged for an additional year of schooling (involving lectures and practical work) to enable workers to upgrade their skills. One worrying trend which Toshiba executives noted in the mid-1990s was that many Japanese high school graduates wished to avoid shop floor jobs and instead preferred white collar assignments.

Toshiba laid great emphasis on safety procedures. Workers were covered from head to toe in protective clothing. Before entering the manufacturing room, the workers had to put on a protective suit, long boots, tight rubber gloves that extended over the arm of the suit, a cloth helmet covering the head and neck and a gauge face mask.

Toshiba planned to recruit more engineers with an international background. The company also had plans to enter into more alliances with US companies and recruit foreigners to Toshiba's board of directors.

Adapted from “Toshiba, Global Strategic Management Case Studies on Fortune 500 Companies”, Transworld University, Volume VI.

### ACTIVITY-B

Describe the Japanese Management practices

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### Japanese vs US Management Practice and Theory Z

It is seen in America that Americans are turning to Japanese management practices to find a solution to the declining growth rate in productivity in the United States. The characteristics that distinguish Japanese from American management practices, are presented here

#### COMPARISON OF JAPANESE AND U.S. MANAGEMENT PRACTICES

Japanese Management	U.S. Management
<b>PLANNING</b>	
Long – term orientation	Short-term orientation
Collective decision making	Individual decision-making
Many people are involved in decision making	Few people are involved decision making
Decisions flow bottom-up and back	Initiated at the top and flow down
Decision making takes a long	Decision-making is fast, but
time. But implementation is fast.	implementation is slow
People share decision power and responsibility	It vests in designated individuals
Individual goal ambiguity	Individual goal clarity.
<b>ORGANIZING</b>	
Collective responsibility and accountability	Individual responsibility
Ambiguity of decision responsibility	Clarity
Informal organization structure	Formal
Organization culture and philosophy are well known	Common organizational culture is lacking
Identification with company	Identification with profession
Organizational change by internal change agent	By external change agent
<b>STAFFING</b>	
Hiring young people out of school	From institutions and other companies
Slow promotions through ranks	Rapid promotions desired and demanded
Loyalty to the company	Loyalty to the profession
Infrequent performance appraised for new employees	Performance appraisal is frequent
Appraisal of long-term performance	Appraisal of short-term performance

Reward for long-term performance	Reward for short-term performance
Small differences in pay increases	Substantial differences
Reward for group performance	Reward for individual performance
Promotions based on multiple criteria	Based on individual performance
Training and development considered a long-term investment turnover	Training and development is on a low key due to high employee
Exposure to many functions	Narrow career paths
Life time employment	Absence of job security
Leader as a social facilitator	Leader as decision maker
Leader is part of the group	Leader as head of the group
Paternalistic style	Directive style
Common company values facilitate cooperation	Often divergent values; individualization often hinders corporations
Avoidance of confrontation; emphasis ins an harmony	Face-to-face confrontation is common
Confluence of working and private life	Highly separated
Emphasis on oral communication	On written communication
<b>CONTROLLING</b>	
Self control and control by peers	Control by superiors
Focus is on group performance	Focus is on individual performance
The objective of control is to	To fix the blame

save face

Extensive use of quality circles	Limited use
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*Source: Harold Koontz and Heinz Weihrich, Essentials of Management (Singapore: McGraw-Hill, Fifth edition, 1990) 495.*

However, one should be cautious when interpreting this table. Just as not all American firms are managed the same way, not all Japanese firms follow the same managerial principles.

### ACTIVITY-C

Compare Japanese and American Management Practices.

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After researching both American and Japanese management approaches, management expert William Ouchi outlined Theory Z. Ouchi began his study by identifying the contrasting characteristics of Japanese and American companies. He discovered that certain successful US-based companies – including IBM, Intel, Hewlett-Packard, Eastman Kodak, and Eli Lilly – exhibited a style of management that effectively combined the traits of typical American and Japanese companies. He called these hybrid companies – Theory Z organizations. Theory Z firms grew out of a desire to improve upon the typical American way of managing. Theory Z companies were American in origin, but Japanese in conduct and experience. They used some Japanese managerial practices, but Japanese in conduct and experience. They used some Japanese

managerial practices, but made adjustments according to the environment prevailing in the United States. Ouchi's work showed that American organizations could benefit from thoughtful incorporation of the Japanese management practices.

### SELF-ASSESSMENT QUESTIONS

1. What is the concept of Japanese Management?
2. Explain the Japanese Management Practices.
3. Describe Theory Z through an example of a company.
4. Compare Japanese Management and US Management Practices.

### FURTHER READINGS

1. Harold Koontz and Heinz Weihrich, Essentials of Management, McGraw-Hill, Singapore, 1990
2. Global Strategic Management Case Studies on Fortune 500 Companies, Transworld University, Volume VI.

### KEY TERMS

- Life time employment
- Seniority system
- Group work

## LESSON

# 25

## DIVERSITY MANAGEMENT

### LESSON OUTLINE

- Diversity.
- Need for Diversity Management.
- Barriers to Diversity Management.
- Factors influencing Diversity initiatives.
- Why organizations manage Diversity.
- Best strategies for managing Diversity
- Requisites for effective Diversity Management

### LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Understand the concept of diversity.
- ❖ Explain the need for diversity management.
- ❖ Present the barriers to diversity.
- ❖ Describe the factors influencing diversity initiatives.
- ❖ Explain the strategies and requisites for diversity management

## INTRODUCTION

Globalization has made us to open gates for foreign companies to establish their operations in India. The Indian companies are establishing themselves in several other countries. In this contest, diversity management is very relevant. When the companies go global, there will be employees in the company belong to different cultures, languages, races, nationals, ages etc. All these diverse employees should be managed properly. Otherwise the companies will disappear very soon.

Diversity refers to: the presence of differing cultures; languages; ethnicity; races; sexual orientation; religious sects; abilities; classes; ages; and national origins of the people in an institution or community such as school, workplace, neighborhood and so forth.

## DEFINITION OF DIVERSITY

According to Triandis, Kurowski, and Gelfand' "Managing diversity means changing the culture – that is, the standard operation procedures. It requires, data, experimentation, and the discovery of the procedures that work best for each group. It is more complex than conventional management but can result in more effective organization". Thomas said, "Managing diversity is to empower or enable employees. Managing diversity prescribes approaches that are philosophically broad enough to encompass all dimensions of diversity"

## NEED FOR DIVERSITY MANAGEMENT

Increasingly, organizations face the challenge of managing programs to accommodate a diverse workforce. It is, therefore, essential that people from business and industries understand what types of environments are conducive to the employment, retention, and promotion of diverse groups to ensure productivity and remain competitive.

The purpose is to provide diversity initiatives and programs in order to better understand organizational response to workforce diversity. It also provides a knowledge base regarding the diversity process utilized by organizations to help educators and people from business and industry better understand the current status and future trends of diversity initiatives in organizations.

- ❖ What are the barriers that have inhibited the employment, development, retention, and promotion of diverse groups in the workplace?
- ❖ What are the major factors influencing diversity initiatives in the workplace?
- ❖ Why are organizations managing diversity?
- ❖ What are the best strategies for organizations to manage diversity?
- ❖ What are the components of effective diversity training programs?
- ❖ What are the future trends related to diversity in the workplace?

## ACTIVITY-A

Write the meaning and need for diversity management.

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## BARRIERS TO DIVERSITY MANAGEMENT

Two types of barriers:

1. Organizational barriers (coming from the workplace environment),
2. Individual barriers (coming from the employees themselves).

**(1) Organizational Barriers**

The following six factors which are there in the organization become barriers to manage the diversity.

1. Negative attitudes and discomfort towards people who are different,
2. Discrimination
3. Prejudice
4. Stereotyping
5. Racism
6. Bias

**(2) Individual Barriers**

The following factors in the individual employees become the barriers for diversity management in an organization.

1. Poor career planning
2. Inadequate skill preparation
3. Lack of organizational political savvy
4. Lack of proper education
5. Low self-esteem
6. Poor self-image

**ACTIVITY-B**

List out the barriers to diversity management

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**FACTORS INFLUENCING DIVERSITY INITIATIVES**

The six major factors most frequently influencing diversity initiatives in the workplace are

**(1) Demographic changes**

Immigration, increase in women workers, increase in minority workers, increase in older workers, and more people with disabilities in the workplace.

**(2) Global marketplace**

The globalization has raised the need for a multicultural perspective to compete successfully abroad. The organizations need to deal with employees, customers, and suppliers around the world. Employees need skills and cultural awareness training to be more knowledgeable, understanding, and sensitive to the differences that exist between them and other nationals.

**(3) Economics**

Diverse population makes a large percentage of customer bases. Diverse customers are now earning more money and can afford more and are willing to pay more to get what they want.

**(4) People are more comfortable being different**

People bring to the workplace a variety of experiences, values, cultures, physical abilities, religions. Work styles, and so forth. They are no longer willing to deny their defenses in order to assimilate into the organization's mainstream. They

want to maintain their uniqueness and still receive the respect and support of the people they work with.

#### (5) Diverse customer base

Diverse customers are more complex and differ in their needs, tastes, and desires. To understand and respond properly to a diverse customer base, business needs to make their own workforce more diverse.

#### (6) Equal Employment Opportunity and Affirmative Action programs

Now there are equal employment opportunities for men and women, and people belong to any country.

#### ACTIVITY-C

Explain the factors influencing diversity initiative in work place.

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#### WHY ORGANIZATIONS MANAGE DIVERSITY

The organizations manage diversity for the following reasons:

1. To Improve Productivity and Remain Competitive
2. To Form Better Work Relationships Among Employees
3. Social Responsibility
4. Legal Concerns

#### BEST STRATEGIES FOR MANAGING DIVERSITY

Six best strategies for managing diversity are...

1. Training and education programs

2. Organizational policies that mandate fairness and equity for all employees
3. Mentoring programs
4. Career development programs
5. Performance appraisal systems that are non-discriminatory
6. Outreach programs.

Community involvement, internship programs, scholarships, targeting recruitment in the community, lectures at B-schools, adopting B-schools, and the creation of partnerships with business schools.

#### ACTIVITY-D

Why organizations manage diversity and what are the strategies for that.

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#### PRE-REQUISITES FOR EFFECTIVE DIVERSITY MANAGEMENT

For effective management of diversity the following are required:

- Obtain Top Management Support
- Integrate Diversity Into All Company Functions
- Use a Combination of Strategies
- Create a Corporate Culture That Supports Diversity

#### SELF-ASSESSMENT QUESTIONS

1. What is diversity? Explain the need for diversity management.



2. What factors influence the diversity management at work place? What are the barriers of diversity management?
3. What are reasons for organizations to go for diversity management and what are the strategies for diversity management.

**KEY TERMS**

- Diversity.
- Demographic changes.
- Global market place.
- Diverse customer base.

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### Unit-III

## PERCEPTION AND LEARNING

### OBJECTIVES

The objective of this lesson is to make you understand the perceptual processes and the learning processes. After going through this lesson, you should be able to:

- Understand the perceptual process and the influencing factors thereof
- Identify the factors determining the external and internal stimuli
- Examine the various learning theories, and
- Distinguish between positive and negative reinforcement influencing the learning behaviour.

### STRUCUTRE

This lesson deals with the following aspects:

- ❖ THE PERCEPTUAL PROCESS
- ❖ FACTORS INFLUENCING SELECTION OF STIMULI
- ❖ FACTORS INFLUENCING PERCEPTION
- ❖ MANAGING THE PERCEPTION PROCESS
- ❖ LEARNING THEORIES
- ❖ LEARNING REINFORCEMENT

### NATURE AND SIGNIFICANCE OF PERCEPTION

Perception is how people look at and understand the things. It is a unique interpretation of the situation rather than recoding of it. Perception is a complex cognitive process of understanding the world, sometimes not in its real form. Perception is a learning process and hence it differs from person to person. As a result, the same stimuli may produce different behaviours and responses. In managing the

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organizations particularly in dealing with the people, managers should be able to understand the perceptions of the people. It is in this context, an attempt is made here to explain you the perceptual process, factors influencing perceptions and managing the perceptions to the advantage of the organization.

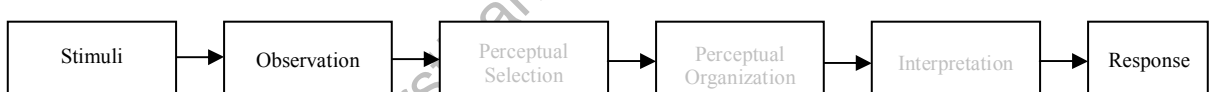
### THE PERCEPTUAL PROCESS

Perception is the process by which people select, organize, interpret and respond to information from the world around them. This information is obtained through the senses namely, seeing, hearing, touch, taste and smell.

Perception may be defined as the process of receiving, selecting, organizing, interpreting, checking, and reacting to sensations. It is also defined as a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environments.

The perceptual processes show that their functioning is affected by three variables – the objects perceived, the environment in which perception occurs, and the individual perceiving the objects.

Diagram: The Perceptual Process



In the above diagram, you may find that the important aspects of perception are selection and organization. Different people perceive an object differently both in terms of what they selectively perceive and how they organize and interpret the things perceived. A person's selection process involves factors internal to the person as well as external to him. It is, in fact, a complex set of factors that determine the perception of an individual.

Similarly, an individual organizes the selected stimuli into meaningful patterns. The interpretation of what is perceived may vary widely. For example, a wave of hand

may be interpreted as a friendly gesture or it may be interpreted as a sign of threatening depending on the circumstances and the state of mind of the two people. Therefore, quite often the people perceive things differently and behave on the basis of those perceptions. Managers in organizations should understand that people's perceptions differ and at times they also go wrong.

#### ACTIVITY - I

Explain the perceptual process.

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#### External Factors Influencing Selection

The external factors influencing selection are nature, intensity, size, contrast, repetition, motion, and novelty and familiarity.

##### Nature

By this we try to understand the nature of the object. Is it a visual object? Does it have words, pictures, people or animals? Pictures attract attention more than words and a picture with human beings attracts attention more than a picture with inanimate objects.

##### Intensity

The intensity principle conveys that if the external stimulus is more intense in nature, the more it is likely to be perceived by the individual. That is why people pay more attention to loud noise, strong odour or bright light. At work places, superiors speak loudly to subordinates for this reason only.

##### Size

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Like intensity, size also matters very much. The larger objects are likely to be perceived more by the individuals than the smaller ones. A maintenance engineer gives greater attention to a bigger machine than a smaller one.

##### Contrast

The contrast principle suggests that the external stimulus that stands out distinctly against the background or the one that is quite unusual will receive greater attention of the people.

##### Repetition

The principle of repetition suggests that a repeated external stimulus draws more attention than a single one. The several advertisements of various products shown daily on TVs are based on the principle of repetition only. This principle also explains why supervisors have to give directions to workers repeatedly for even simple tasks.

##### Motion

According to this principle, people pay greater attention to moving objects rather than stationary objects. That is why advertisers create signs that incorporate moving parts.

##### Novelty and Familiarity

This principle states that either a novel or a familiar external situation can better serve to draw attention. New objects in familiar settings or familiar objects in new settings are likely to draw the attention of the perceiver. Job rotation is followed in organizations for this reason. With changing jobs the workers will pay greater attention to the tasks assigned to them.

#### Internal Factors Influencing Selection

Internal factors influencing selection of stimuli are personality, learning, and motivation. They are explained below.

### Personality

It cannot be disputed that personality has a significant impact on what and how people perceive. The various personality dimensions influence the perceptual process. A conscientious person is likely to pay greater attention to external environmental stimuli than a less conscientious person who is likely to be careless, impulsive and irresponsible. On the other hand, conscientious people tend to organize their perceptions into clear categories, receive information quickly and in an organized manner. They are careful and methodical in their perceptual selection and organization.

### Learning

Perceptual selection is also affected by learning. Learning determines the development of perceptual sets. Perceptual set means the expectation of particular interpretation based on past experience with the same object. This is also known as cognitive awareness by which the mind organizes information and form images and compare them with previous exposures to similar stimuli. In organizations employees' experiences are influenced by their perception very much. In making decisions, managers are also influenced by their functional background. However, it is necessary for managers to rise above their own experiences and be able to solve the problems in an appropriate way. Individual differences lead to perceptual bias. This bias can be overcome through education and experience.

### Motivation

Motivation also plays an important role in influencing the process of perception. For example, a hungry person is likely to be sensitive to the sight or smell of food than a non hungry person. Like wise if the person is deprived of sleep, he looks for a situation in which he can have a comfortable sleep. Generally, people perceive things that help in satisfying needs and those that were found rewarding in the past. The relationship between motivation and perception is explained through Collenyannia Principle which states that people process pleasant events more efficiently and accurately than the unpleasant events.

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### ACTIVITY - II

What factors influence selection of stimuli?

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### FACTORS INFLUENCING PERCEPTION

A number of factors operate to shape and sometimes to distort perception. These factors emanate from three sources – the perceiver, the perceived and the situation.

#### The Perceiver

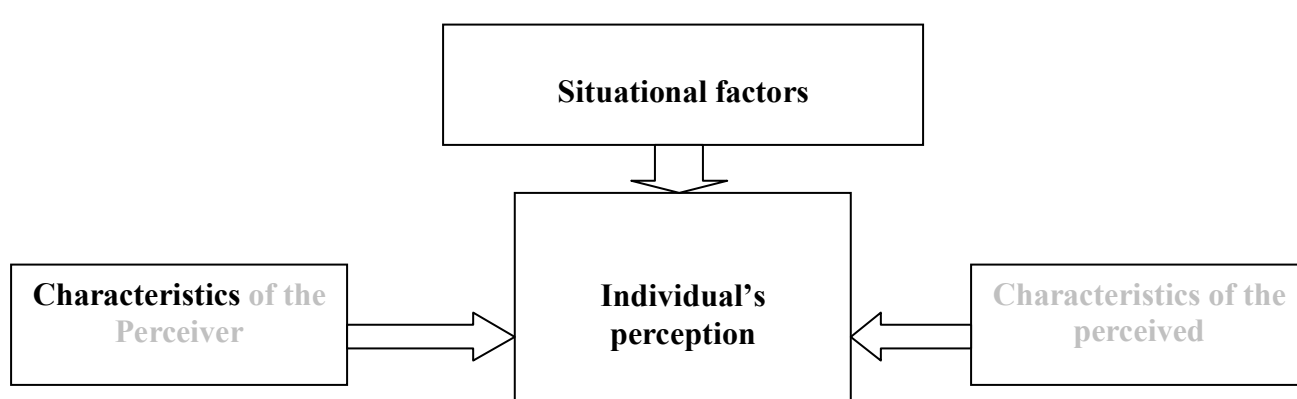
When a person looks at a target, his interpretation of it is influenced by his personal characteristics like his needs, past experience, habits, personality, values, and attitudes. A person with a strong need for ego satisfaction may select out from a situation and emphasize signals that tend to satisfy the desire for self esteem. Similarly, negative attitudes toward unions may cause a manager to look for antagonisms in even routine visits by local union officials to the organization. These and other personal factors will determine what a person gives attention to in a situation and how these cues are interpreted as a basis for decision-making and action responses.

#### The Perceived

Characteristics in the target that is being observed may influence what is perceived. The physical attributes, appearance, and behaviour of other persons in the situation also influence how the object is perceived. Physical attributes of a person are related to age, sex, height, and weight. A young person exercising authority in a situation is viewed differently from an older person doing the same thing. Personal attire and appearance are also relevant factors in the formation of perceptions.

### The Situation

The context in which we see the objects or events is important. The physical, social and organizational elements of the situation or event may also influence perceptions. A subordinate calling his boss by a first name may be perceived quite differently when observed in an office as opposed to in a social reception. Though the perceiver and the perceived are the same, it is the situation that makes a difference. Such background characteristics of the situation or context are additional factors that can affect how the situation is perceived by the different persons. The following Diagram shows the summary of the factors influencing perception.



**Diagram: Factors Influencing Perception**

### MANAGING THE PERCEPTION PROCESS

Successful managers understand the importance of perceptions as influences on behaviour, and handle them accordingly. They are aware of perceptual distortions and accept that perceptual differences are likely to exist in any situation. With this knowledge, they make appropriate decisions that are acceptable to all persons concerned. The perceptual skills of a manager will help him in the following ways.

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#### High level of self awareness

As already made clear, individual needs, experience, and expectations will all affect perceptions. The successful manager understands this and is able to identify when he is inappropriately distorting a situation because of such perceptual tendencies.

#### Seek information from various sources for decisions

The successful manager minimizes the bias of personal perceptions by seeking out the viewpoints of others. These insights are used to gain additional perspective on situations and the problems or opportunities they represent.

#### Empathy

As is understood, different people look at the same situation differently. The successful manager rises above the personal impressions and tries to understand problems as felt by other people.

#### Influence of perceptions on other people

People act according to their own perceptions. If felt necessary, the successful manager influences the perceptions of others in such a way that the work events are interpreted as accurately as possible and to the advantage of all concerned.

#### Avoid common perceptual distortions

Perceptual distortions include the use of stereotypes and halo effects, as well as selective perception and projection. Successful managers are self disciplined and sufficiently self-aware that the adverse impact of these distortions is minimized.

#### Avoid inappropriate attributions

A person has a tendency to explain why events happened the way they did or why people behaved as they did. The successful manager is wise enough to establish the real reasons for the things that happen and avoid the tendency of making quick or inappropriate attributions.

## LEARNING

Now we may turn our attention to understanding the learning and the various processes of learning. Learning is any relatively permanent change in behaviour that occurs as a result of experience. There are two important elements in learning:

- a. Change must be relatively permanent. It means after 'learning' the behaviour of a person must be different from the previous behaviour. If a person learns car driving, it will last for a long time indicating the changed behaviour. Temporary changes may be only reflexive and fail to represent any learning. Therefore, this requirement rules out behavioural changes caused by fatigue or other temporary adaptations.
- b. The second element is that the change of behaviour should take place as a result of some kind of experience. Learning must be because of some interaction with the environment and some feedback from such environment that affects behaviour. The experience may be direct or indirect. Sometimes we learn to change our behaviour when our colleagues are punished for that kind of behaviour.

You may note that learning itself cannot be observed. The behavioural changes consequent upon learning only can be seen. This kind of change in behaviour should be differentiated from change in behaviour caused by other factors. For example, aging may cause behavioural changes. A change in an individual's thought process or attitudes, if accompanied by no change in behaviour, would not be learning.

Learning certainly has its own impact on training activities in an organization. It can give insights into how to best develop the skills and talents of employees for performing the jobs effectively. But it is the desire to change individuals that is of the greatest importance. The manager who undertakes to produce such changes acts like a teacher. He guides the employees to engage in behaviours that will help the organization achieve its objectives. When the employees are late for work, lazy, disobey the rules or engage in any type of dysfunctional behaviour, the manager

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attempts to teach behaviours of functional nature. Further, if the employee is performing well, he gives the employee feedback and also rewards to strengthen such desirable behaviour.

You may understand that individuals enter an organization with a host of learned attitudes and behaviours. Their job performance is a function of their learned experiences. Learning is a continuous experience for employees. It is because of learning, employers recruit people with college degrees or those with job experience. The employer presumes that not only education or experience provides learning, but that learning will lead to higher job performance.

## LEARNING THEORIES

In an organization, employees have to learn and practice productive work behaviours. The manager's task is to provide sufficient learning experiences to employees in an environment that will facilitate learning process and promote desired behaviours. Training prepares employees to meet the challenges of the job, for which incentives are to be provided to learn and practice right behaviours. The following are the important theories of learning.

### Classical Conditioning

Classical conditioning is the process by which individuals learn to link the information from a neutral stimulus to a stimulus that causes a response. This response may not be under an individual's conscious control. Pavlov, in his experiments, hung some meat in front of dogs. This meat is unconditioned stimulus or unlearned stimulus. The dogs responded to this stimulus by salivating. This kind of response was instinctive or unconditioned. Afterwards Pavlov started to ring a bell at the same time when meat was offered. Ringing the bell without offer of meat was not connected to any responses. However, by ringing the bell every time when meat was offered, Pavlov established a relationship between the two stimuli that is the bell and the meat. With the continuation of the process, the ringing of the bell alone acted like a stimulus to evoke the response

of salivating even without presentation of meat. As a result, the bell became a conditioned stimulus leading to conditioned response.

### Operant Conditioning

B.F. Skinner coined the term operant conditioning to refer to a process by which individuals learn voluntary behaviour. Voluntary behaviours are called operant because they operate or have some influence on the environment. Learning occurs from the consequences of behaviour, and many employee work behaviours are operant behaviours. As a matter of fact, most behaviours in everyday life are forms of operant behaviour. Managers are interested in operant behaviours because they can influence the results of such behaviours. On the basis of the direct relationship between the consequences and behaviour, the management can identify the relationship and try to modify the behaviour. That is how the behaviour can be controlled by manipulating its consequences. Two principles guide this relationship. 1. The behaviour that results in positive rewards is likely to be repeated and behaviour with negative consequences is likely to be extinguished. 2. Based on such consequences, the behaviour can be predicted and controlled. Therefore, some consequences can be used to increase the recurrence of desired behaviour and some other consequences can be used to decrease the recurrence of undesired behaviour.

### ACTIVITY - III

What do you know about operate conditioning?

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### PRINCIPLE OF REINFORCEMENT

We understand that some behaviours are strengthened by the process of reinforcement. Reinforcer may be any stimulus that prompts a behaviour to be repeated or stopped.

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Managements expect that the employee should behave in a desirable manner in the organization and avoid undesirable behaviour. By the appropriate use of reinforcers, the organizations are able to maintain or increase the probability of behaviours like quality oriented performance, wise decision making, regular attendance and punctuality and so on. Some reinforcers work by their application to a situation whereas other reinforcers work by their removal from this situation.

### Positive Reinforcement

Positive reinforcement is provided by offering rewards for desired behaviours. Such rewards should be powerful and durable so as to increase the probability of occurrence of desirable behaviour. Money, as you understand, is the most powerful reinforcement for positive behaviour since money can be used for a number of other purposes. Some other positive reinforcers are recognition for good performance, challenging task, participation in decision making and so on. As individuals have different motivations of performance, positive reinforcers should be individually tailored with a view to facilitate the repetition of desired behaviour. That means reinforcer must be valued by the employee. For example, money would be a less reinforcer who values praise for his performance more. The reward must be directly linked with behaviour so that the higher the performance of an employee, the greater would be the reward.

### Negative Reinforcement

In negative reinforcement, an unpleasant event that precedes the employee behaviour is removed when the desired behaviour occurs. This procedure increases the likelihood of the desired behaviour to follow. Negative reinforcement is sometimes confused with punishment because both use unpleasant events to influence behaviour. However, negative reinforcement is used to increase the frequency of a desired behaviour, whereas punishment is used to decrease the frequency of an undesired behaviour. Managers frequently use negative reinforcement when an employee hasn't done something that is desired.



#### ACTIVITY - IV

Distinguish between positive reinforcement and negative reinforcement.

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#### Omission

Omission is the removal of all reinforcing events. While reinforcement increases the frequency of a desirable behaviour, omission decreases the frequency and eventually extinguishes an undesirable behaviour. Managers use omission to reduce undesirable employee behaviours that obstruct achievement of organizational goals. The omission procedure consists of three steps.

1. identifying the behaviour to be reduced or eliminated,
2. identifying the reinforcer that maintains the behaviour, and
3. stopping the reinforcer.

Omission is a useful technique for reducing and eventually eliminating behaviours that disrupt normal workflow.

#### Punishment

Punishment is an unpleasant event that follows a behaviour and decreases its frequency. As in positive reinforcement, a punishment may include a specific antecedent that cues the employee that a consequence will follow a specific behaviour. While a positive consequence of reinforcement encourages the frequency of a desired behaviour, a consequence of punishment decreases the frequency of an undesired behaviour.

Organizations typically use several types of unpleasant events to punish individuals. They may be a wage cut, a suspension without pay, a demotion, or a

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transfer. The severe punishment is the dismissing an employee for failure to perform. In general, organizations use punishments of unpleasant nature sparingly for cases of serious behavioural problems.

It may be kept in mind that punishment should be used as a last resort. The use of punishment should be limited to those undesirable behaviours that cause a significant damage to the organizational operations. It may also be remembered that punishment should not lead to hostility to such an extent of making solution more harmful than the problem itself.

Punishment may cause undesirable emotional reactions. An employee who has been reprimanded for a mistake may react with anger toward the manager and the organization. Such reactions may lead to retaliatory behaviour harmful to the organization. Sabotage, you remember, typically is a result of a punishment-oriented management system. It is clear that punishment leads to short-term suppression of the undesirable behaviour, rather than to its elimination. Further, the punished individual may develop a tendency of avoiding the situation. High absenteeism is a form of avoidance and quitting is the final form of escape.

You should also note that punishment suppresses employee initiative and flexibility. Overusing punishment produces apathetic employees, who are not assets to an organization. Sustained punishment can also lead to low self-esteem. Low self-esteem, in turn, undermines the employee's self-confidence, which is necessary for performing most of the job.

#### ACTIVITY - V

What should be management's approach towards using punishments?

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## PERSONALITY AND INDIVIDUAL DIFFERENCES

### OBJECTIVES

The objective of this lesson is to make you understand the concept of personality and its dimensions. After going through this lesson, you should be able to:

- grasp the meaning of personality
- understand the factors contributing for personality development
- gain the knowledge of various personality theories and
- find out the impact of personality differences on behaviour.

### STRUCUTRE

This lesson deals with the following components:

- Meaning and Definition of Personality.
- Determinants of Personality
- Theories of Personality
- Personality Traits and Their Impact on Behaviour.

### MEANING AND DEFINITION OF PERSONALITY

Personality is a complex phenomenon and difficult to be understood. There is no single universally acceptable definition. Personality refers to the personal characteristics that lead to consistent patterns of behaviour. It represents the overall profile or combination of stable characteristics that capture the unique nature of a person. Personality combines a set of physical and mental characteristics that reflect how a person looks, thinks, acts and feels. It has both internal and external elements. External traits are observable behaviours on the basis of which we can understand one’s personality. The internal factors are thoughts, values and genetic characteristics that are inferred from the observable behaviours. According to Hogan,<sup>1</sup> personality refers to the relatively

<sup>1</sup> Hogan RT, ‘Personality and Personality Measurement in MD. Dunnette and LM Hough (eds.) Handbook of Industrial and Organisational Psychology (2<sup>nd</sup> ed.) 1991.

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stable pattern of behaviours and consistent internal states that explain a person’s behavioural tendencies.

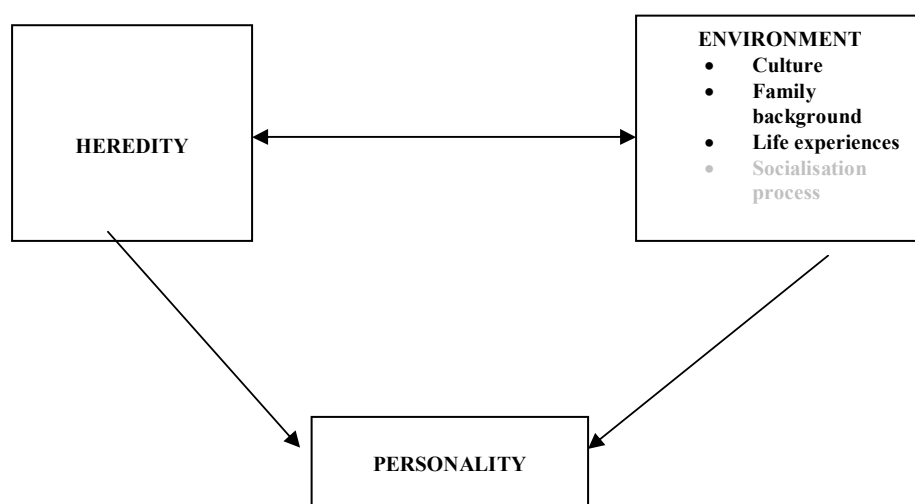
We can understand from the above that people have some traits in common with others and some uncommon with them. Each employee in an organization is unique and he may or may not act similarly in a similar situation. Therefore, managers cannot use the same kinds of rewards or motivation techniques to influence employee’s behaviour. The above definition does not mean that people do not ever change. It simply indicates that individuals do not change drastically overnight and their thoughts, feelings, values, and actions remain relatively stable over time. Personality changes in individuals occur slowly over an extended period of time. An understanding of personality dimensions would enable managers to predict the behaviour of employees and manage them effectively.

### ACTIVITY - I

Define personality.

## DETERMINANTS OF PERSONALITY

Having understood the concept of personality, now you can move further to know how an individual's personality is determined? Is it inherited (genetically determined) or is it formed after years of experience? There are no simple answers to these questions. In fact, several factors influence the shaping of our personality. Primarily, there are two sources contributing for personality differences. They are 1) heredity and 2) environment. Environment has several factors within it like culture, family background, life experiences and the groups we interact with. The following diagram shows how personality is shaped by these factors.



### Heredity

Our personality is partly inherited genetically from our parents. For example whether we are fair or dark, tall or short, strong or weak are all characteristics that have something to do with heredity. Personality characteristics are partly influenced by environmental factors also like experiences in life. Some traits may have strong genetic component while others may be largely learned.

### Culture

Culture refers to the distinctive ways in which people organize and live their lives.

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Hence people belonging to different societies will have different cultural systems. Persons born into a particular society are exposed to family and societal values and to norms of acceptable behaviour in the culture of that society. People in the West and those in the East have cultural differences between themselves. In US culture, people are rewarded for being independent while in Japanese culture they are rewarded for being group oriented. These differences are primarily due to variations in cultural norms and expectations of acceptable behaviours in the respective societies. You may also note that though cultural values may have an impact on personality differences among people in different cultures, people born in the same culture may also differ from each other in many characteristics. For example, being Indians some are more assertive, than others. Similarly, the work ethic is usually associated with Western cultures. But this value does not influence all the people in Western cultures equally. Managers should keep this in mind when they are dealing with the employees.

### Family Background

An important tool for socializing a person into a particular culture is the person's immediate family. Factors like the socio-economic status of the family, the number of children in the family and birth order, and education of the parents and extended members of the family such as cousins, uncles and aunts, can influence personality formation. In this regard, you may note that parents' influence on children's development is significant and it happens in three ways:

1. Through their own behaviours, they influence children's behaviours
2. They serve as role models
3. They selectively reward and punish the behaviours of childrens.

### Experiences in Life

self esteem, are all related to his past experiences. A complex set of events and interactions with other people determine the level of self esteem of a person. Therefore, some personality traits get changed positively or negatively on the basis of the kind of

experiences in one's life.

### Groups We Interact With

The first group of people, a person interacts with is the family. As they grow, people participate in various groups in the life time. The roles and experiences people have as members of different groups lead to personality differences. People influence each other and tend to associate with members who are akin to them in their attitudes and values. The interactions begin first with parents and siblings, then our teachers and classmates, later on our friends and colleagues. Undoubtedly, the influence of groups and various individuals will shape our personality. For example, if a person wants to become a member of a work group, he has to change himself to conform to the values and norms of that group. If the person is of aggressive type, he may have to become cooperative.

On the basis of the above discussion, it can be said that personality is influenced by both heredity and environmental factors. In the next section, we try to understand how personality does affect the behaviour of people at work.

### ACTIVITY - II

How is personality of an individual shaped?

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### THEORIES OF PERSONALITY

A study of personality theories would help us in understanding the nature of personality. A few theories have been explained below:

#### Trait Theory

Trait theory shows a way for understanding personality. Many traits are common to most people. However, there are many other traits that are unique to a person. It may

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be remembered that traits are reactions and not what a person possesses. A person does not possess emotion but he acts emotionally in some circumstances. On the basis of the traits, people can be described as emotional, aggressive, loyal, creative, flexible, humorous, sentimental, impulsive and so on. Traits are the basic elements of personality and can be used to summarize the behaviour of a person. However, determining basic traits is rather difficult because thousands of descriptive words are there.

#### Psychoanalytical Theory

The psychoanalytical theory of personality is based on the Freudian concept of unconscious nature of personality. On the basis of his clinical experience, Freud noted that his patient's behaviour could not always be consciously explained. This prompted him to believe that the personality structure is primarily founded on unconscious framework and that human behaviour and motivation are the outcomes of such conflicting psychoanalytic concepts as the **id**, the **ego** and the **super ego**. **Id** is the foundation of the unconscious and is the basis of libido drives. It strives for sexual and other biological pleasures and has animal instincts of aggression, power and domination. **Ego** is conscious in nature and is a mechanism to relate our conscious urges to the outside real world. It keeps the **id** in check through the realities of the external environment. While **id** demands immediate pleasure, regardless of costs, **ego** controls it so that these pleasures are granted at an appropriate time and in an acceptable manner. Because of difficulty in keeping the **id** under control, **ego** is supported by **super ego**. The **super ego** is the higher level restraining force and can be described as the conscience of the person. The conscience creates standards of what is right and what is wrong and is generally subconsciously developed by the absorption of cultural and ethical values of the social environment. All these three Freudian elements are inter-related and each cannot exist in isolation from others. In order to create a "normal" personality, there must be a balance in the relationship among these three forces.

### Social Learning Theory

The social learning theory differs from the psychoanalytical theory in two ways. First, it is believed that personality development is more a result of social variables than biological drives. Secondly, motives can be traced to known and conscious needs and wants rather than unconscious and latent desires. Thus, learning theory looks at personality as the sum total of all that a person has learned. The social learning theory focuses on behaviour patterns and cognitive activities in relation to the specific conditions that evoke, maintain or modify them. The social learning theory uses “reinforcement and punishment” approach in understanding personality. For example, good behaviour is rewarded by management in terms of praise that further reinforces good behaviour. Thus, behaviour and external environment have mutual interaction. Behaviour partly creates the person’s environment and the environment affects the behaviour as well.

Learning may also take place simply from observation rather than interaction with the environment. We watch the behaviour of other people, draw conclusions from it and come out with our own behaviour. Unlike trait theory or psychoanalytical theory, social learning theory considers situation as an important variable in determining human behaviour.

### ACTIVITY - III

What do you know about psychoanalytical theory of personality?

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### INDIVIDUAL DIFFERENCES AND IMPACT ON BEHAVIOUR

The range of personality traits is quite bewildering. Personality trait means the basic components of personality. The important personality traits that influence employee behaviour at work place are need patterns, locus of control, introversion and extroversion, self-esteem and self-concept, risk taking, self monitoring, Type A or Type B personality, and goal orientation. These are briefly explained below.

#### Need Patterns

Primarily four personality needs can be identified that manifest themselves in the work setting. They are the needs for achievement, affiliation, autonomy and dominance. Those with a high need to achieve engage themselves proactively in work behaviours in order to feel proud about their achievements and success. Those high in need for affiliation tend to work cooperatively with others. Those high in need for autonomy do well when not closely supervised. Those high in their need for dominance prove to be effective in situations where they can enforce their legitimate authority.

#### Locus of Control

Locus of control refers to a generalized belief that events are either within one’s control (internal locus of control) or are determined by the fate or luck (external locus of control). People who have moderately strong internal locus of control are likely to perform better at work places. They are likely to be more successful than their external counterparts. Internals are more suitable for leadership positions and are likely to be more satisfied with the jobs. Internals typically have more control over their own behaviour than externals that leave every thing to fate.

#### Introversion and Extroversion

Personality traits are commonly understood in terms of introversion and extroversion. Introversion is the tendency in individuals which directs them to turn inward and experience and process feelings, thoughts and ideas within themselves. Extroversion refers to the tendency in individuals to turn outward searching for external stimuli with

which they can interact. While there is some element of introversion as well as extraversion in all of us, based on dominance, people are regarded as either introverts or extroverts. Extroverts are sociable, lively, gregarious, and seek outward stimuli or external interactions. Introverts are quiet, reflective, introspective, and intellectual people. They interact with a few intimate people. Introverts perform well when they are alone and when the environment is quiet. Since managers have to constantly interact with individuals both within and outside the organization and be able to influence them to achieve organization's goals, it is expected that extroverts prove to be better managers than introverts.

#### **Risk - taking**

Personality differences can be seen in the willingness of people to take risk. Some managers are prepared to take risk and act on little information and quickly also. They prove to be as much effective as those other managers that are averse to take risk and make decision cautiously.

#### **Self – Monitoring**

It refers to a person's level of sensitivity and ability to adapt to situational cues. High self-monitors change their behaviour quite easily to suit the situation whereas low self-monitors reveal their moods and personal characteristics to others who can easily predict their behaviour in a given situation. Self monitoring personality trait is important in carrying out organizational activities. Employees having this trait emerge as better performers, better leaders and are likely to grow faster in the organization.

#### **Self – Esteem and Self-Concept**

Self esteem is the result of a person's continuing self-evaluation. Self-esteem refers to the extent to which an individual consistently regards himself as capable, successful, important, and worthy. Self-esteem is an important personality factor that determines how managers perceive themselves and their role in the organization. It is important to self-concept, which refers to the way individuals define themselves as to who they are

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and derive their sense of identity. High self-esteem leads to a high sense of self-concept, which in turn, reinforces high self-esteem. The two are mutually reinforcing forces. As a trait, a person high in self-esteem is likely to take on more challenging assignments and be successful, thus enhancing their self-concept. That means they define themselves as highly valuable and valued individuals in the organization. The higher the self-concept and self-esteem of a person, the more he contributes to the goals of the organization.

#### **Type A and Type B Personalities**

Individuals can be grouped into two types of personalities – Type A and Type B. Type A persons feel a chronic sense of time urgency, are highly achievement oriented, exhibit a competitive drive, and are impatient when their work get slowed down for any reason. In contrast, Type B persons are easy going individuals who neither have sense of time urgency, nor the competitive drive. Type A individuals are more prone to heart attacks than Type B individuals. While helping the organization to move ahead in a relatively short period of time, Type A persons may suffer from health problems which are harmful to themselves apart from the organization.

#### **Goal Orientation**

An important personality difference affecting behaviour at work is goal orientation. There are two orientations – learning goal orientation and performance goal orientation. A person with learning orientation develops by acquiring new competencies whereas a person with performance orientation demonstrates competencies by seeking favorable judgements from others. As is well known, some individuals are highly work-oriented while others try to do the minimum that is necessary for not being fired on the job. The extremely work oriented person gets greatly involved in the job and lives up to being described as "living, eating, and breathing the job". Estrangement from immediate family members could may occur. Though a high level of work orientation of members is good for the organization to



achieve its goals, too much of it may lead to premature burnout and health problems.

In the above discussion, it is becoming clear to us that personality traits are important for employees, managers and organizational effectiveness. With personality differences, we are able to understand, how they affect the behaviour of the people in organizations.

#### ACTIVITY - IV

Distinguish between introversion and extroversion.

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### MOTIVATION

#### OBJECTIVES

In this lesson we will introduce you to the concept of motivation and explain the various models of motivation. After going through the lesson, you should be able to:

- Appreciate the nature and types of motivation
- Understand different theories of motivation and
- Analyse the impact of motivation on organizational performance.

#### STRUCTURE

In this lesson, we have discussed the following contents:

- ❖ CONCEPT OF MOTIVATION
- ❖ MOTIVATIONAL SOURCES
- ❖ THEORIES OF MOTIVATION
- ❖ MOTIVATION FOR HIGH PERFORMANCE

#### INTRODUCTION

Motivation received a great deal of attention in the management of the people in different organizations. It represents the internal and external forces acting on a person that prompt him to behave in a specific goal directed manner. It is the 'willingness' to do something and is conditioned by its ability to satisfy the needs of an individual.

The term motive is defined as an urge, desire, craving or need that must be satisfied. All motives are directed towards goals. "Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to move in a goal directed pattern towards restoring a state of equilibrium, by satisfying the need."

Because motives of employees affect their productivity, management's job is to channel employee motivation effectively toward achieving organizational goals.



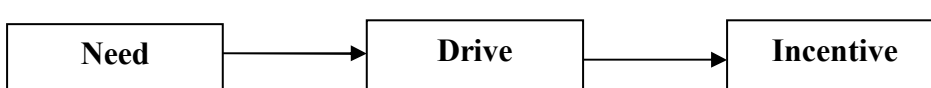
However, motivation is not the same as performance. The important motivational principle states that the performance is a function of a person's level of ability and degree of motivation. This may be expressed as a formula shown below:

$$\text{Performance} = f(\text{Ability} \times \text{Motivation})$$

Ability represents a person's talent for performing goal related tasks. For the successful performance of a task, the person should have ability coupled with a high level of motivation.

Motivated people find themselves in a constant state of tension. This tension drives a person to behave in a particular way to reach an outcome or incentive that relieves the person of the tension. The greater the tension, the more activity will be needed to bring about relief and hence higher level of motivation. Thus the basic motivation process can be depicted as follows:

#### DIAGRAM : THE PROCESS OF MOTIVATION



#### MOTIVATIONAL SOURCES

Having understood the concept of motivation, now you can learn something about the various sources of motivation. You may note that motivation may sometimes come from external environment in the form of rewards or punishments and sometimes it is generated from within an employee in the form of intrinsic motivation. It may be recognized that under the same set of external factors, all employees are not equally motivated. It depends upon various factors which you can understand when you go through the different motivational theories. The motivational sources are explained below.

#### Positive Vs. Negative Motivation

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Motivation may be either positive or negative. Positive motivation takes place when management recognizes the employee's efforts towards the achievement of organizational goals. It is positive because, this kind of motivation increases the level of performance, promotes team spirit, a sense of cooperation and generates a feeling of belongingness and happiness. The positive motivational factors are:

- ❖ Praise and reward for good performance.
- ❖ Concern for the well being of an employee.
- ❖ Confidence reposed in the employee.
- ❖ Delegation of authority
- ❖ Scope of participation given in the decision making.

Negative motivation, on the other hand, results from the use of force, pressure, fear or threat. You may note that fear of punishment also affects motivation and thereby the behaviour of a person. In the organizations, negative motivation may come from the fear of being transferred, demoted or removed. This fear of punishment prompts the person to work hard and achieve the goals.

It may, however, be realized that negative motivation is not desirable because employees do not like to be punished. As far as possible, they have to be motivated by positive means only.

#### Extrinsic Vs. Intrinsic Motivation

You may understand that motivation may be either extrinsic or intrinsic. Extrinsic motivation is induced by external factors primarily financial rewards. It is expected that the behaviour caused by positive rewards is likely to be repeated. But the reward should be sufficiently powerful for desirable behaviour to be repeated. Money acts as a significant incentive for positive behaviour of employees. Realizing the value of financial incentives as motivators, managements now-a-days make use of wage increments, bonus payment, fringe benefits, stock options, profit sharing schemes, paid holidays, medical benefits, etc. for motivating the employees.

Intrinsic motivation is something that is generated within an individual. It is an inner feeling. It may be a sense of achievement or recognition leading to satisfaction that motivates the employee further. Since this kind of motivation comes from within, it is called intrinsic motivation. There are many retired doctors who work free in the hospitals because it gives them a sense of accomplishment and satisfaction. Some of the intrinsic motivators include praise, status, recognition, esteem, challenge, risk and responsibility in job.

#### ACTIVITY - I

What constitute the sources of motivation?

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#### THEORIES OF MOTIVATION

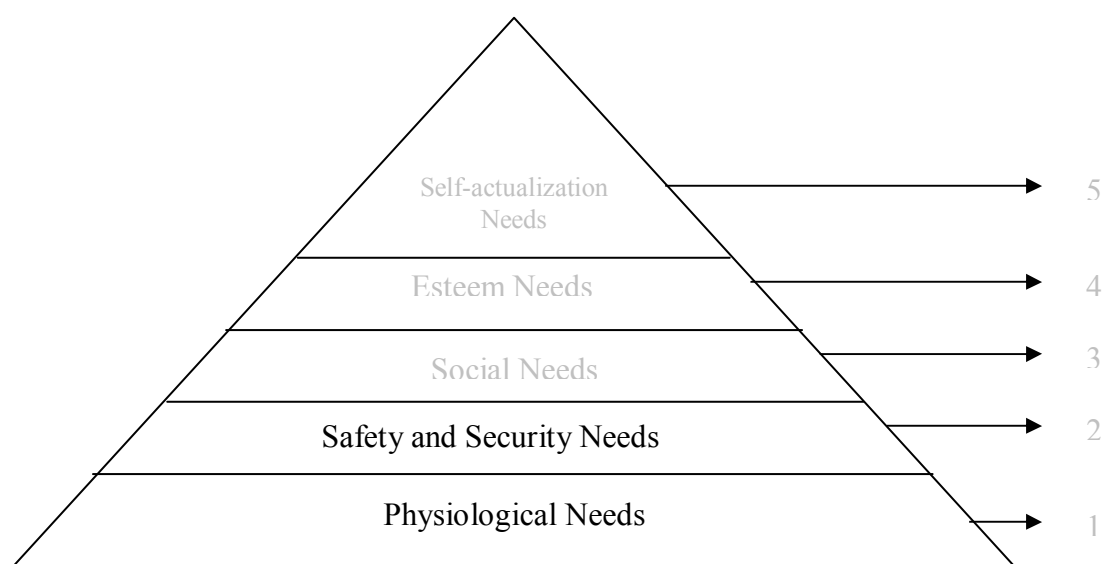
There are two types of motivational theories - content theories and process theories (cognitive theories). While content theories explain what motivates and what does not motivate, the process theories examine the variables that go into the motivational process taking place within an individual. Some of these theories are explained below.

##### Maslow's Need Hierarchy Theory

Abraham Maslow has propounded this need hierarchy theory as early as in 1943. Maslow points out that human beings have divergent needs and they strive to fulfill those needs. The behaviour of an individual is determined by such needs. These needs range from biological needs at lower level to psychological needs at the highest level. Further, these needs arise in an order of hierarchy or priority such that lower level needs must be satisfied before higher level needs become important for motivation. Maslow postulates five basic needs arranged in a hierarchy as follows:

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**DIAGRAM: MASLOW'S NEED HIERARCHY**

The first three levels of needs at the bottom are known as lower order needs as they are related to one's existence and security. The top two levels of needs are called higher order needs as they are concerned with personal development and realization of one's potential. The needs are explained below.

##### Physiological Needs

The physiological needs are the basic needs having the highest strength in terms of motivation. These are the needs arising out of biological tensions created as a result of deprivation of food, water, shelter, rest etc. If these basic needs are gratified, then the next level needs become important and act as motivators.

##### Safety and Security Needs

Once the physiological needs are fulfilled, safety and security needs become predominant. These are the needs for self-preservation while physiological needs are for survival. These needs include those of security, stability, freedom from anxiety and a structured and ordered environment. These safety and security needs arise out of the

concern for the fulfillment of physiological needs in the future. An individual seeks economic or social protection against future threats and dangers that he is exposed to. If once these needs are gratified, they fail to serve as motivators any more. The individual, then, moves on to the next level needs and strives for their fulfillment.

#### **Social Needs**

At the third level, social needs or love needs become important. An individual cannot live an isolated life. A sense of affiliation becomes important for a meaningful life. These needs include the need for love, affection, companionship and social interaction. We know very well that at home the child needs the love of parents and at school he needs the friendship of his classmates.

#### **Esteem Needs**

This is to attain recognition from others that would induce a feeling of self-worth and self-confidence in the individual. It is an urge for status, prestige and power. Self-respect is the internal recognition while respect from others is the external recognition. People that are able to fulfill this need feel that they are useful and have some positive influence on their surrounding environment.

#### **Self-actualization Needs**

At the highest level is the need to develop and realize one's capacities and potentialities to the fullest extent possible. This need gets activated as motivator when all other needs have been reasonably fulfilled. At this level, the person wants to excel in the skills and abilities that he is endowed with. As a result, he seeks challenging work assignments that require creativity and talent.

This need is inner-oriented and the motivation is intrinsic in nature. A self-actualizing person is creative, independent, content, and spontaneous and has a good perception of reality. He constantly endeavours to realize his full potential.

In conclusion, it may be said that Maslow's model explains human behaviour in general. It has nothing to do with the employee motivation at the work place. Further,

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human needs may not necessarily have the hierarchy as shown by him. The relative dominance of not able to satisfy his social needs may prompt a person to set the physiological needs and safety needs aside and motivate him for earning the love and affection of the family members and the friendship of his colleagues.

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

Frederick Herzberg has developed the two-factor theory in 1950s. He developed it on the basis of his survey of 200 engineers and accountants. In his survey the respondents were required to describe a situation in which they felt happy and a situation in which they felt bad about their jobs. Based upon the answers, he concluded that there are some characteristics or factors that tend to be consistently related to job satisfaction and there are other factors that are consistently related to job dissatisfaction. Herzberg named the factors related to job satisfaction as motivators and those related to job dissatisfaction as maintenance factors or hygiene factors. These two factors are explained below.

#### **Motivators**

The set of motivators are related to the nature of work and are intrinsic to the job itself. These factors positively contribute for satisfaction and increase performance. According to Herzberg, the motivators are:

##### **The job itself**

To get motivated, people must like and enjoy their jobs. Then, they are likely to be committed to goal achievement. They do not mind working late hours and under going other inconveniences to complete the work. Their morale remains high and they try to avoid absenteeism and tardiness.

##### **Recognition**

An employee looks for recognition of his good performance by management. It gives him a feeling of worth and increases his self esteem. It is but natural to be happy when you are appreciated by anyone. Hence recognition is considered an important motivator in organizations.

### Achievement

A sense of achievement gives a great feeling to an employee. To have this sense of achievement the task must be challenging, requiring initiative and creativity. Therefore, jobs are to be designed in such a way as to make available to the employees a sense of pride when such jobs are performed.

### Responsibility

An employee will have satisfaction in carrying out duties that have greater degree of responsibility. The higher the level of responsibility, the more satisfaction and motivation the employee gets.

### Growth and Advancement

These factors are important for motivation. Promotions, higher responsibility, participation in decision-making and executive benefits are all indicators of growth and advancement that add to the satisfaction of employees.

### Hygiene Factors

Unlike motivators, hygiene factors do not motivate employees. However, they prevent dissatisfaction and try to maintain status quo. They do not contribute for growth but prevent loss. The absence of these factors, you should understand, may lead to job dissatisfaction which the organization cannot afford. You may also remember that the elimination of dissatisfaction does not mean satisfaction. According to Herzberg, the hygiene factors are:

- ❖ Wage and salary
- ❖ Company policies and practices
- ❖ Interpersonal relations with peers, superiors and subordinates.
- ❖ Working conditions
- ❖ Job security

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As pointed out above, the hygiene factors are intended to avoid possible dissatisfaction on the part of employees. These factors do not stimulate employees towards satisfaction or performance. Hence, the managements should concentrate on motivators and at the same time take care of hygiene factors as well.

Herzberg's model has been criticized since the results were based primarily on the responses of white collar workers which do not reflect the opinions of blue collar workers' who may consider some hygiene factors as motivators. In fact, in some of the subsequent studies some hygiene factors proved to be motivators e.g., salary. Indisputably workers get motivated by financial rewards and sometimes by work environment also.

In spite of these limitations, the study of Herzberg is found relevant and useful as it is a model developed specifically to explain employee motivation at work place unlike Maslow's model that explains human behaviour in general.

### ACTIVITY - II

Distinguish between motivators and hygiene factors.

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### Vroom's Expectancy theory

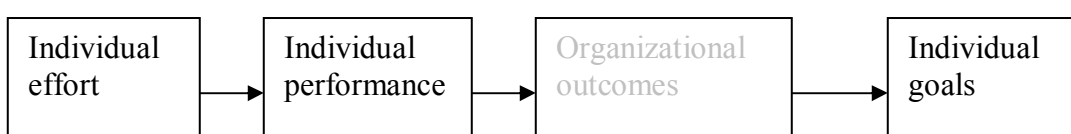
This is one of the process theories of motivation propounded by Victor Vroom in 1960s. The expectancy theory suggest that the motivation or inclination to act in a certain way depends on the intensity of the desire of the employee for a given outcome and on the attractiveness of such an outcome. There are three variables in the expectancy theory as explained below.

**Attractiveness-** It is related to the importance that an individual places on the potential outcome or reward which can be achieved on the job. It depends on the unsatisfied needs of the individual.

**Performance –Outcome Linkage –** It shows the degree to which the individual expects that the performance at a particular level will lead to the attainment of a desired outcome.

**Effort -Performance Linkage –** It shows the degree to which the individual expects that exerting a given level of effort will lead to the performance at a particular level.

The following diagram shows the expectancy of the individual.



**Diagram: Vroom's Expectancy Model**

In the expectancy model shown above, we have to understand first, what perceived outcomes does the job offer to the employee? It may be noted that outcomes may be positive like pay, security, companionship, trust, fringe benefits, and congenial relationships or they may be negative like fatigue, boredom, frustration, anxiety, and threat of punishment. What is important for this purpose is not the reality but what the individual employee perceives the outcome to be.

Second, how much attractive are the outcomes for the employee? Are they valued positively, negatively, or neutrally by the employee. It depends on the individual's personal values, and needs. The individual who considers a particular outcome to be attractive-that is, positively valued-would prefer to attain it rather than not attaining it. Others who consider it negative may prefer not attaining it rather than to attaining it. A few others may be neutral also. In their case, motivation does not take place.

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Third, what kind of behavior an employee must produce in order to achieve these outcomes? The outcomes are not likely to have any effect on the individual employee's performance unless the employee knows, clearly and unambiguously, what he must do in order to achieve them.

Last, how does the employee consider his chances of doing what is expected of him? After the employee has considered his own competencies and ability to control those variables that will determine his success, what probability does he place on successful attainment?

Therefore, whether an employee has the motivation or not depends upon his preferred outcomes and his expectation of performance-outcome linkage and effort-performance linkage. You can understand that an employee does not get motivated if he is indifferent towards an outcome or if he does not have the knowledge of the linkage between outcome – performance – effort.

## MOTIVATION FOR HIGH PERFORMANCE

High performance work system is one that integrates well-established methods of motivation with new technologies that link pay and performance. Linking pay and job performance is very essential but achieving it is difficult. Complex issues are: should pay increase be linked to the performance of a worker or a team? Should the reward be based on cost savings or profits and be distributed annually or when people retire or otherwise leave the organization? The accounting procedures required by cost savings plans are very complex. Further many employees view wages, fringe benefits, challenging work, and the achievement of difficult tasks as rewards.

A number of studies are available on how rewards affect individual and team performance. The ability of rewards to motivate individuals or a team towards high performance depends on the following factors:

**Availability:** Plenty of rewards should be made available to reinforce desired performance. For example, pay increases are often highly desired but not available.

Further, pay increases that are too low may actually lead to negative consequences, like theft, falsifying records, etc.

**Timeliness:** Like performance feedback, rewards should be given promptly. A reward's motivating potential will come down to the extent that it is separated in time from the performance it is intended to reinforce.

**Performance Linkage:** Rewards and performance should be closely linked with each other. If a task is met, the reward is given. The clearer the linkage between performance and rewards, the better the rewards are able to motivate desired behaviour.

**Durability:** Some rewards last longer than others. Intrinsic rewards, like autonomy, challenge, achievement and responsibility, tend to last longer than extrinsic rewards, like pay increase, job security, good working conditions etc.

**Equity:** Employees' motivation to perform is more when they perceive that the compensation policies of their organization are fair and equitable.

**Visibility:** It is necessary that rewards are visible throughout an organization. Visible rewards, like pay increase or promotion send signals to employees that rewards are available for high performance.

Therefore, in designing the reward systems in organizations, the above factors have to be considered for motivating employees and make them achieve high level of performance.

### ACTIVITY - III

How should rewards be used for achieving higher performance?

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## VALUES AND ATTITUDES

### OBJECTIVE

The objective of this lesson is to make you understand the concepts of values and attitudes. After going through this lesson, you should be able to:

- Grasp the meaning of values and types of values
- Understand the changing value system at work place
- Know the attitudes and the mechanism of attitude formation and
- Appreciate the implications of attitudes in organizations

### STRUCUTRE

Keeping in view the above objectives, this lesson deals with the following components

- MEANING AND DEFINITION OF VALUES
- TYPES OF VALUES
- VALUES AT WORKPLACE
- ATTITUDES AND THEIR FORMATION
- TYPES OF ATTITUDES
- IMPLICATIONS OF ATTITUDES

### MEANING AND DEFINITION OF VALUES

At the outset, you try to examine a few definitions of values. According to Rokeach “values represent basic conviction that a specific mode of conduct or end state of existence is personally or socially preferable to an opposite or converse mode of conduct or end state of existence”.

Chakravarti defines values as “the manner in which an individual tends to make judgements or choices, both about goals and means, at different stages of one's life, in different facets of it, as are deemed to lead to the well being and happiness of oneself and society”.

From the above, you can understand that values are learnt from the society and hence are acceptable to the society as preferred ‘modes of conduct’ or ‘end states’. Values are stable and long-lasting beliefs about what is important in a variety of



situations. They are evaluative standards that help us distinguish between right and wrong or good and bad in the world. Values do not represent what we need but they indicate what we ought to do to achieve the need in a socially desirable way. Some people value practicality while others value aesthetics. Some people value frugality while others value generosity. Values influence our priorities, preferences and our actions. Value systems represent prioritizing of individual values in relation to their relative importance. We all have a set of values that form a value system. This system is identified by the relative importance assigned to such values as pleasure, self-respect, honesty, freedom, equality, and so on. The values of an individual influence his attitudes and also his behaviour.

#### Importance of Values

Values are important for organizations because they depend on individual employees for making decisions and actions aimed at achieving the goals. The problem for these organizations is how to align the individual values with those of the organization. Now-a-days, employees resent the traditional command-and-control supervision and expect a lot of autonomy to be given to them. This presents a problem to the managers. Organizational ethics is becoming important in view of the manipulations and malpractices. It has something to do with the values of that organization.

Values influence behaviour of an employee in several ways. If he feels that payment of wage on the basis of performance is right, he cannot accept payment of wage on the basis of seniority. He remains skeptical about such a system followed in the organization. Therefore, the values of individuals need to be studied, so that a proper match can be established between the employees' values and that of the organization.

#### Sources of Values

You may note that values are learnt right from the childhood. They are taught by mother when she guides the child in several ways like "you go to bed early"; "you should wear clean clothes", "you should achieve first rank" and things like that. Your early ideas of what is right and wrong were probably formulated from the views

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expressed by your parents. As you grow, you are likely to get exposed to other value systems and be induced by them. We derive the values from the people we love or respect like our parents, teachers, friends, and other famous personalities in movies, sports, business, and political fields. Out of our admiration for them, we are likely to emulate them by imbibing their values also.

You may remember that in our culture itself, certain values have been developed over time and they are continuously reinforced. Peace, cooperation, harmony, equity, and democracy are the desirable societal values nurtured in our culture.

It is interesting to know that values are relatively, stable and enduring. This is because of the way in which they are originally learned. In childhood, you are told that a certain behavior is always desirable or always undesirable. You are told, for example, that you should be honest and truthful. You were never taught to be a little bit honest or a little bit truthful. It is this absolute learning of values that more or less assures their stability and endurance. You may also note that they are not permanent, but change very slowly. The process of questioning our values, may result in a change.

#### ACTIVITY - I

What are values? How are they important?

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#### TYPES OF VALUES

You may note that values do not operate in isolation. Several values interact with each other to form value system in a society. According to Rikeach, value systems are composed of rank-ordered sets of values that fall into two general categories namely terminal values and instrumental values. Terminal values reflect the desired end states of existence where as instrumental values are related to the choice of behaviour in



reaching those end states. The terminal values are desired states of existence that we try to achieve. Your preferences like duty, equality and wisdom and a compatible life are some of the terminal values. On the other hand, instrumental values are desirable modes of behaviour that help us reach terminal values. Being polite, courageous, logical, self controlled, ambitious etc., are some of the instrumental values.

Values can be categorized on the basis of the level at which operate. These may be:

- Personal values which are formed from past experience and interaction with others.
- Cultural values which are the dominant beliefs held by a collective society.
- Organizational values which are at the heart of organizational culture in terms of shared assumptions, values and beliefs.
- Professional values which are held within an occupational group.

Values may also be classified as the espoused values and enacted values. Espoused values represent the values that we want others to believe we avoid by. Values are socially desirable and so people create a positive public image by claiming to believe in values that others expect them to hold. Contrary to this, enacted values represent the values actually practiced. These values, in fact, guide our decisions and behaviours.

It may be recognized that values are functions of preferences. The most important early work in categorizing values was done by Allport and his associates. They identified six types of values. They are:

1. Theoretical--places high importance on the discovery of truth through a critical and rational approach
2. Economic--emphasizes the useful and practical
3. Aesthetic--places the highest value on form and harmony
4. Social--the highest value is given to the love of people
5. Political--places emphasis on acquisition of power and influence

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6. Religious--concerned with the unity of experience and understanding of the cosmos as a whole.

Allport and his associates developed a questionnaire that describes a number of different situations and asks respondents to preference rank a fixed set of answers. Based on the respondents' replies, the researchers could rank individuals in terms of the importance they give to each of the six types of values. The result is a value system for a specific individual.

#### **VALUES AT WORKPLACE**

The work values may be defined as the conceptions of what is preferable from among the alternative modes of conduct or end states with respect to one's work. Work values are expected to be an integral part a nation's cultural system and hence we notice differences between the work values of American organizations and Japanese organizations. They represent the values internalized by members of the society through the process of socialization. In global organizations, now-a-days, it is becoming difficult to achieve congruence between the diverse values of employees and those of the organization.

While defining managerial values, Indian executives mentioned work ethics, commitment, self-motivation, integrity, hard work, character etc. It is reported in a study that the most important goals of an ethical Indian manager are customer satisfaction, achievement of organizational goals within scheduled time, employee motivation and career progress. According to Upadhyay, Indian managers are status and power oriented and consider decision making as their prerogative and consultation as a means of eroding their authority. They tend to take credit for work done by them rather than share it with individual members of the team. It may be noted that while values are stable and enduring, they are not rigid. Therefore, new generations of employees may bring into the organizations new set of values.

In some of the studies age has been found to be a major factor in differentiating employee values. Young employees give importance to more autonomy at work place, short-run gratification, quick growth, individualism, and openness compared to old

employees.

As a result, young employees bring a different set of values to the work place. Hence, management should understand those new values and accordingly deal with them for achieving good performance. Managers have to study values because they are the foundations for understanding a person's attitudes, perceptions, motivation and behaviour in the organization.

#### ACTIVITY - II

What do you know about the values at work place?

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#### ATTITUDES AND THEIR FORMATION

Having understood the values, we may turn our attention to know about the attitudes and their formation. You should recognize that attitudes are evaluative statements- favorable or unfavorable- concerning objects, people, or events. They indicate how one feels about something. When you say "I like my job," or "I hate making lies" they represent your attitudes.

Attitudes are different from values. Values could be a little broader in concept while attitudes are more specific. Values indicate the rightness or desirability of something. For example, a statement like "gender discrimination is bad" reflects the values one stands for. On the other hand, a statement "I prefer women to be given an equal place with men in recruitment" represents the attitude of a person. Attitudes are learned predispositions towards various aspects of our environment.

While, attitudes and values are different, there are also some similarities. Both are powerful instruments influencing cognitive process and behaviour of people. Both

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are learned and acquired from the same sources – people and objects. Both are relatively permanent and resistant to change. Both values and attitudes influence each other and are used interchangeably. Hence, values people hold can explain their attitudes and, in many cases, the behaviours they engage in. However, we cannot determine which values underlie which attitudes and behaviours.

#### Sources of Attitudes

As already pointed out above, attitudes, like values, are acquired from the environment - parents, teachers, friends, and colleagues. You may note that they are only acquired but not inherited. We begin modeling our attitudes after those we admire and respect. We observe the way family members and friends behave and we shape our attitudes and behavior to align with theirs. You tend to imitate the attitudes of famous persons or those you admire and respect. Attitudes may also be developed from a personally rewarding or punishing experience with an object or event. If employees are rewarded for being regular in an organization, you are likely to believe that you will also be rewarded if you are regular.

In contrast to values, your attitudes are less stable. That is why advertising messages attempt to change your attitudes toward a certain product or service. If Maruti Company is able to create a favorable opinion toward their car, that attitude may lead to a desirable behavior i.e., the purchase of Maruti car.

In organizations, knowledge of attitudes is important for managers because they affect job behavior. Manager's knowledge can serve two purposes. Firstly, it helps him in understanding and predicting how a person is likely to behave. Secondly, it helps him in changing unfavorable attitudes into favorable attitudes.

#### ACTIVITY - III

What factors influence the formation of attitudes?

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## TYPES OF ATTITUDES

A person may have a multitude of attitudes, but what is important for us to study is the limited number of job-related attitudes. These job-related attitudes are positive or negative evaluations held by employees about various aspects of their work environment. Essentially, there are three important attitudes we are concerned with: job satisfaction, job involvement, and organizational commitment.

### **Job Satisfaction**

One of the tasks of a manager is to provide job satisfaction to their employees. Job satisfaction refers to an individual's general attitude toward his or her job. A person with a high level of job satisfaction holds positive attitudes toward the job, while a person who is dissatisfied holds negative attitudes towards the job. When we talk about employee attitudes, mostly we mean job satisfaction. As a matter of fact, the two are closely related.

### **Job Involvement**

The term "job involvement" is relatively a recent concept in the literature. There is no complete agreement over what the term means. Generally, it refers to the degree to which a person identifies with his job, actively participates in it, and considers his performance important to his self-worth. Individuals who express high involvement in their jobs are likely to be more productive, have higher satisfaction, and are less likely to resign than employees with low involvement.

### **Organizational Commitment**

The attitude reflects an individual's orientation toward the organization by tapping his or her loyalty to, identification with, and involvement in the organization. Individuals who highly committed see their identity as closely attached to that of the organization.

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Like job involvement, highly committed employees will be better performers and have lower turnover than those with low levels of commitment to the organization.

You may understand that when you talk about job attitudes and their impact on behavior, you are referring to the positive or negative appraisals that people make about their job or organization. Job satisfaction is the most popular attitude measured in organizations, but more recently there has been increased attention given to job involvement and organizational commitment. All these attitudes are measured with a view to predict employee behaviors like performance, productivity, absenteeism, turnover and unionization.

## IMPLICATIONS OF ATTITUDES

### **Attitudes and Productivity**

The attitude-productivity relationship is not clear. Because in 1955, Brayfield and Crockett made an extensive study of this relationship and concluded that there was minimal or no relationship between attitudes and performance. However, two years later, Herzberg and his associates concluded from the review of studies, that there was generally a positive relationship between attitudes and productivity. They noted that in many cases the correlations, although positive, were low. Similarly, a review in 1964 of twenty-three separate studies revealed that, except in three cases, there was a low but positive relationship between satisfaction and performance. It is clear that the studies on the relationship between attitudes and productivity give rise to mixed findings. Even in recent studies also increased employee satisfaction, involvement, or commitment cannot be said to lead to higher productivity.

### **Attitudes and Withdrawal Behaviors**

It was found in early studies that employee satisfaction is inversely related to absenteeism and turnover. The greater the job satisfaction on the part of an employee, the less is the scope for employee's withdrawal behavior. Brayfield and Crockett found a significant but complex relationship between attitudes and both absenteeism and

turnover. Vroom found a consistent negative relationship between job satisfaction and turnover, but a less consistent negative relationship between satisfaction and absenteeism. Many studies have found that satisfaction has a consistent impact on absenteeism, but an even more profound and consistent relationship on turnover. However, the conclusion that satisfaction and absence are inversely related has come under recent attack.

There is growing enthusiasm for the view that organizational commitment is a better predictor of voluntary resignations than job satisfaction. If this is true, efforts to develop valid measures of organizational commitment may be of increasing importance to managers.

In conclusion, the evidence is fairly clear that committed and satisfied employees have lower rates of both turnover and absenteeism. If we consider the two withdrawal behaviors separately, however, we can be more confident about the influence of attitudes on turnover.

#### **Attitudes and Satisfaction**

You should recognize that job attitudes and job satisfaction are closely related. In many research studies, in fact, these terms are used interchangeably. In studies of job attitudes, it is generally thought that the result is some measure of job satisfaction or dissatisfaction. Job satisfaction, however, is not a behavior but rather a general feeling of contentment with the job. As a result, if attitudes are positive, job satisfaction tends to be positive. On the other hand, if the attitudes are negative satisfaction becomes low. Therefore, if a manager wants to have employees who are satisfied with their jobs, he should strive to create in them positive attitudes toward their job and the organization.

#### **ACTIVITY - IV**

Explain the implications of job attitudes in organizations.

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## STRESS MANAGEMENT

### OBJECTIVES

The objective of this lesson is to familiarize you with the job stress and its management in organizations. After going through this lesson you should be able to:

- ❖ Know the meaning of stress and its causes
- ❖ Understand how stress levels change on the basis of occupational and individual differences
- ❖ Acquaint with the consequences of distress affecting employee performance and behaviour and
- ❖ Think of appropriate strategies for managing stress.

### STRUCUTURE

This lesson focuses attention on the following contents

- ❖ MEANING AND DEFINITION OF STRESS
- ❖ CAUSES OF STRESS
- ❖ OCCUPATIONAL DIFFERENCES AND STRESS
- ❖ INDIVIDUAL DIFFERENCES AND STRESS
- ❖ CONSEQUENCES OF DISTRESS
- ❖ MANAGING WORK- RELATED STRESS

### MEANING AND DEFINITION OF STRESS

People often think of stress in negative terms and believe that it is caused by something bad in the environment. For example, a family member becomes ill, a student fails to get admission into the desired course or an employee is scolded by his superior for late coming. All this is to be called a form of distress. However, there is a positive side of stress also caused by good things like a student securing admission into medicine or an

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employee getting promoted as a manager. This is called *eustress*. The Greek word **eu** means good. Therefore, at work places employees may experience bad stress as a result of demotion or good stress caused by increased job responsibility and time pressure that go with a promotion.

In fact, there are numerous definitions of job stress. You should understand at least a few of them. Ivancevich and Matteson define stress simply as “the interaction of the individual with the environment”. They give a more detailed definition of stress as “an adaptive response, motivated by individual differences and/or psychological processes, that is a consequence of any external (environmental) action, situation, or event that places excessive psychological and/or physical demands on a person”.

Beehr and Newman define job stress as “a condition arising from the interaction of people and their jobs and characterized by changes within people that cause them to deviate from their normal functioning”.

From the above, you can understand that stress is an adaptive response to a situation that is challenging or threatening to the person. You may also note that stress is a person’s reaction to a situation but not the situation itself.

#### □ ACTIVITY - I

What is job stress?

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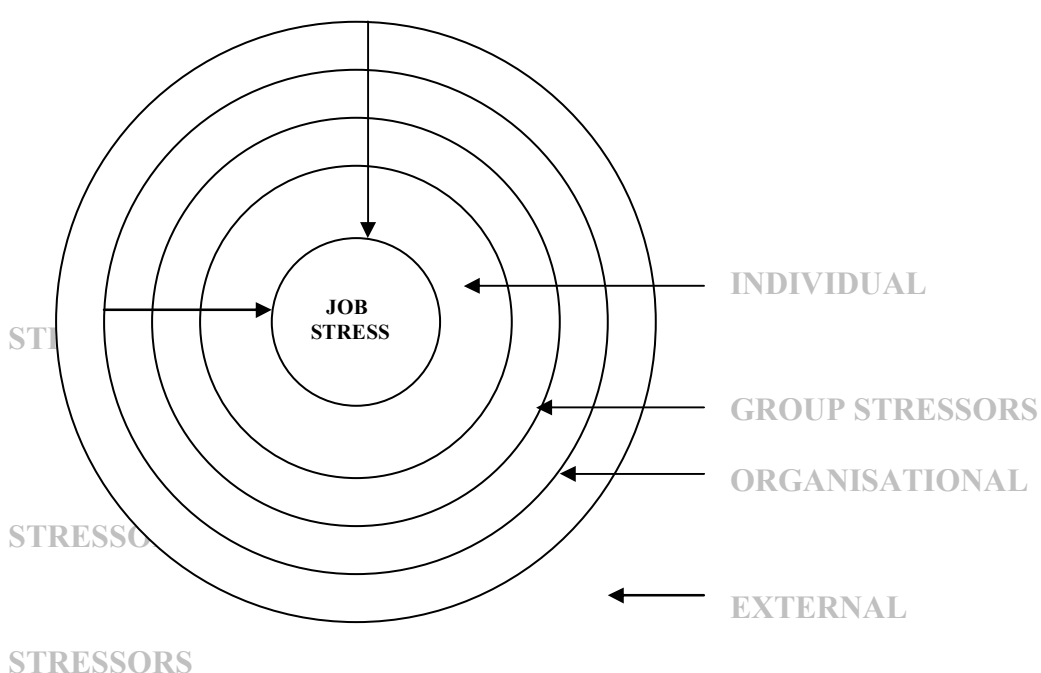
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### CAUSES OF STRESS

Let us examine the causes of stress now. The factors contributing to stress are called stressors. Stressors exist in the environment and they make a physical or emotional demand on the person. Stressors emanate from both within the organization and outside which can be classified as external stressors, organizational stressors, group stressors and individual stressors as shown in the following diagram.



**Diagram: Factors contributing to Job Stress**

#### External Stressors

In the analysis of job stress, we tend to ignore outside forces or events. In fact, they have a greater impact on stress. Quite often, we experience plenty of

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stress situations outside the organizational settings. External stressors stem from societal changes, globalization, family economic conditions, relocation, race, religion and community conditions. You have to remember that when employees enter into the organizations, the stressors are also carried over which affect their behaviour. In the changing situation, inspite of the advancement in medical sciences the modern living has increased the stressful conditions and decreased the health and well being of people in urban environments. The life styles have changed giving rise to several anxieties and tensions. As a result, potential job stress has increased.

Outside the organization, a person's family also plays an important role in contributing for stress conditions. An illness of the family member or a strained relation with spouse or a child may create stress for an employee. Not able to properly balance the family responsibilities and the job responsibilities, employees experience a lot of stress. For example, a psychologist reports that divorce between wife and husband interferes with work more than any other trauma in a person's life. It is pointed out that in the first three months after a spouse walks out; the employee becomes incapable of focusing on work.

In addition, now-a-days various developments in the macro level scenario like frequent communal riots, strikes, violence, religious differences, oppressions, harassments, kidnaps, suicides, attacks by extremists have all become a common place. Living in such an environment, a person is exposed to a variety of stressful situations.

#### Organizational Stressors

Organizational stressors are many and manifest themselves in different forms. You may note that any change in organization is stressful. Technological changes and structural changes happen too frequently. Mergers and acquisitions are increasingly resorted to. It is needless to say that downsizing of workforce is extremely stressful to those who lose their jobs. Layoff survivors also experience



stress due to higher workloads, feeling of guilt, job insecurity, and the loss of friends at work.

In the physical environment of an organization, you find stressors in the form of high temperature, excessive noise, lack of privacy, poor lighting, safety hazards and poor quality of air. A study observed that in a noisy plant, workers' levels of stress significantly decreased when they were supplied with ear protectors. In another study, it was found that clerical employees experienced significantly higher stress levels in noisy open offices than in quiet areas.

#### **ACTIVITY - II**

What are organizational stressors?

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### **Group Stressors**

As you are aware, within an organization, there are several groups that function at different levels. A number of stressors arise at group level, which are discussed below.

#### **Lack of Group Cohesiveness:**

Cohesiveness means “togetherness”. Employees should remain a cohesive group. If the cohesiveness does not exist among employees, it may lead to job stress.

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Cohesiveness of the group may be lost because of the task design, or animosities of group members, or the supervisor trying to limit it.

#### **Lack of Social Support:**

Employees have different social groups for different purposes. These play an important role in extending support to an employee. By sharing their joys and sorrows with others, they feel comfortable and happy. In the absence of this kind of mutual social support, the situations prove to be very stressful. There are research studies indicating that the lack of social support is so stressful that it results in health care costs. You may note that group-level dynamics may also act as stressors. A study indicated that organizational politics was a potential source of stress in the work environment.

### **Interpersonal Stressors**

Interpersonal stressors like group competition, ineffective supervision, office politics, and other conflicts are many in the organizations. The more an employee is required to interact with other people, the more is the scope for stress. As you are aware, in banks and call centers, the employees experience a lot of stress because of the uncooperative customers and high targets to be achieved.

### **Individual Stressors**

At individual level, there are many factors that contribute to stress, most of which are role-related. Role-related stressors include conditions where employees have difficulty in understanding, reconciling, or performing the various roles in their lives. The four main role-related stressors are role conflict, role ambiguity, workload, and task control.

#### **Role Conflict**

Role conflict occurs when people face competing demands. Inter-role conflict exists when employees have two roles to play which are conflicting. For example, people in supervisory cadre in organizations face this kind of conflict, as they have to meet the expectations of management on the one hand and the expectations of workers



on the other. Role conflict also occurs when an employee receives contradictory messages from two superiors about how to perform a task or work with organizational values and work obligations that are incompatible with his or her personal values. The working women often experience role conflict between their job responsibilities and family obligations.

#### **Role Ambiguity**

Role ambiguity exists when employees are uncertain about their job duties, performance expectations, level of authority, and other job conditions. This ambiguity tends to occur when people enter new situations like joining as a manager in an organization accepting a foreign assignment. This is because they are uncertain about task and social expectations that go with the new positions.

#### **Workload**

Workload is a well-known job stressor. But you remember that work underload, receiving too little work or having tasks that do not sufficiently use your talents, is also a possible stressor. Now -a-days, employees have either too much to do in too little time, or they work too many hours on the job. Long work hours may lead to unhealthy lifestyles, which, in turn, cause heart disease, back pain or eye sight. Work overload is such a problem in most of the software organizations in India leading to health problems.

### **OCCUPATIONAL DIFFERENCES AND STRESS**

Several studies have attempted to identify which jobs have more stressors than others. You may note that one problem with rating occupations in terms of their stress levels is that a particular occupation may have considerably different tasks and job environments in different organizations and societies. The job of a police officer may be

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less stressful in a small town than in a large city where crime rates are higher and the organizational hierarchy is more formal.

Another important point for you to remember is that a major stressor to one person may be insignificant to another. We cannot conclude that people in high-stress occupations actually experience higher stress than people in other occupations. Some jobs expose people to more serious stressors, but careful selection and training can result in stress levels no different from those experienced by people in other jobs.

### **INDIVIDUAL DIFFERENCES AND STRESS**

You have already understood that individuals differ in their personality characteristics. These differences determine the stress levels experienced by the people. Two people may be exposed to the same sources of stress like meeting a deadline for achieving a goal. However, in terms of stress levels, they may be different. Similarly they may be different in terms of stressors also.

Some individuals are more prone to stress than others. It may be on account of demographic differences and cognitive affective differences. Demographic differences are related to age, health, education and occupation. Age causes stress because as people go through the life stages, certain things are expected of them. As they grow, they have to shoulder greater responsibilities. Health is another factor influencing health. Healthy people can cope with stress more than sick people. Education is also important in this context. If the person is not educated, he feels unworthy and that may cause stress. Coming to occupation, it is needless to say that every occupation involves one kind of stress or other.

Cognitive affective differences are satisfaction, locus of control and type of personality. Persons having greater urge for satisfaction work hard and try to excel others. This may lead to overwork and also burnout. Locus of control refers to one's feeling of the extent to which he is able to control the surrounding world. The greater the person's perception of control over the environment, the lesser is his proneness to stress. Another

cognitive factor is personality. As explained earlier, there are two types of personalities – Type A and Type B. Type A personalities are involved in struggles to get more achieve more. Therefore, they are more prone for stress. On the other hand, Type B personalities are more patient and easy going. They are interested in achieving goals but follow different ways for the purpose. As a result, they are less prone for stress.

### ACTIVITY - III

How do stress levels change from one individual to another?

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### CONSEQUENCES OF DISTRESS

Stress will have serious consequences on our health as well as our job performance. Stress results in a variety of physiological, psychological, and behavioral consequences.

#### Physiological Consequences

Stress takes its toll on the human body. Studies have found that students who are anxious about their exams are more susceptible to colds and other illnesses. As you are aware, many people experience tension or headache due to stress. Others get muscle pain and related back problems. These physiological ailments are attributed to muscle contractions that occur when people are exposed to stressors.

#### Psychological Consequences

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Stress results in various psychological consequences, like job dissatisfaction, moodiness, and depression. Emotional fatigue is another psychological consequence of stress, which is related to job burnout.

#### Job Burnout

Job burnout is the process of emotional exhaustion, depersonalization, and reduced personal accomplishment resulting from prolonged exposure to stress. The term “job burnout” was not known 50 years ago; but it’s heard everywhere now a days. Job burnout is a complex process that includes the dynamics of stress, coping strategies, and stress consequences. Burnout is caused by excessive demands made on people who serve or frequently interact with others. Interpersonal and role-related stressors cause burnout.

There are three components of job burnout. The first one is **emotional exhaustion**, which plays a key role in the burnout process. It is characterized by a lack of energy and a feeling that your emotional resources are exhausted. Emotional exhaustion is sometimes called compassion fatigue because the employee no longer feels able to give as much support and caring to clients.

The second one is **depersonalization**, which is identified by the treatment of others as objects rather than people. Employees subjected to burned-out become emotionally detached from clients and cynical about the organization. This detachment reaches the point of callousness, far beyond the level of detachment normally required in helping occupations. Depersonalization can be seen when employees strictly follow rules and regulations rather than try to understand the client’s needs and search for a mutually acceptable solution.

The third component of job burnout is **reduced personal accomplishment**. It refers to the decline in one’s feelings of competence and success, and becomes evident in feelings of diminished competency. In other words, the person’s self-efficacy declines. In these situations, employees develop a sense of learned helplessness, as they no longer believe that there make a difference.

### Behavioral Consequences

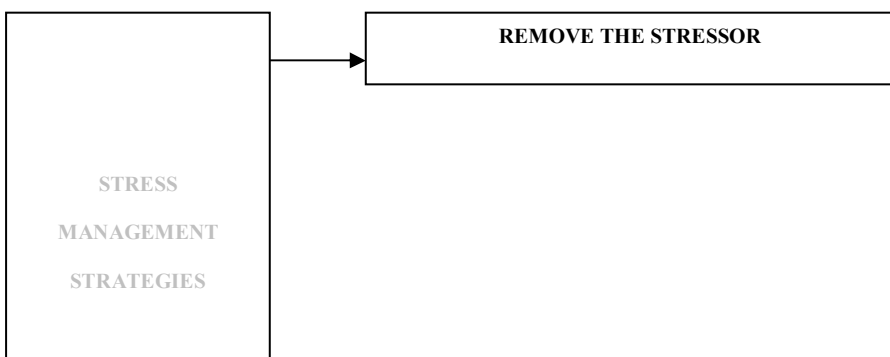
When stress becomes distress, job performance comes down and workplace accidents increase. High stress levels impair your ability to remember information, make effective decisions, and take appropriate actions. You probably experience this kind of distress in exams. You are likely to forget important information and commit mistakes.

Overstressed employees also tend to become absent frequently. This is because stress makes people sick. Some times absenteeism is used as a stress coping mechanism. Normally, we react to stress through fight or flight. Absenteeism is a form of flight-temporarily withdrawing from the stressful situation so that we find time to re-energize ourselves.

Sometimes workplace aggression may be the consequence of stress. Aggression represents the fight reaction to stress. In its mildest form, employees engage in verbal conflict. They are not likely to empathize with co-workers. Occasionally, it may lead to more dangerous levels of workplace hostility.

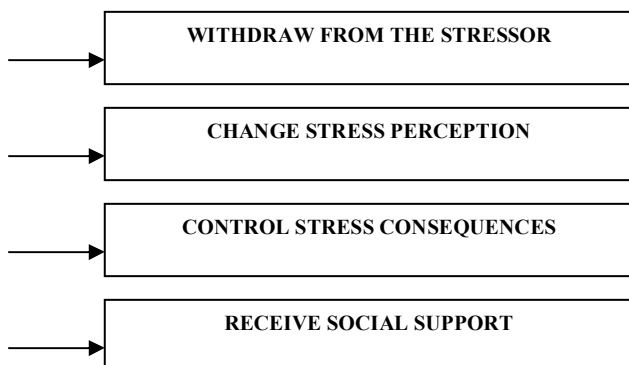
### MANAGING WORK-RELATED STRESS

In managing work related stress, both the organization and the employees have joint responsibility. Stress management often includes several strategies. These are shown in the following diagram.



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**Diagram: Stress Management Strategies**

### Remove the Stressor

An important way companies can effectively manage stress is by removing the stressors that cause unnecessary tension and job burnout. Other stress management strategies may keep employees. “Stress-fit”, but they don’t solve the fundamental causes of stress.

In managing stress organizations have to investigate the main causes of stress in their workplace. For example, you may ask employees to complete confidential questionnaires to identify when and how they experience stress. You may remember that one of the most powerful ways to remove workplace stressors is to empower employees so that they will have more control over their work and work environment. Placing employees to positions that match their competencies can minimize role related stressors. Noise and safety risks are stressful, so improving these conditions would also go a long way to minimize stress in the workplace.

### Family-Friendly and Work-Life initiatives

The most common work-life balance initiatives are flexible work time, job sharing, telecommuting, personal leave programs, and childcare support. Many

firms have flexible timings with regard to the hours, days, and amount of time employees want to work.

Job sharing splits a career position between two people so that they experience less time-based stress between work and family. They typically work different part of the week, with some overlapping work time in the weekly schedule to coordinate activities.

Telecommuting reduces the time and stress of commuting to work and makes it easier to fulfill family obligations, such as temporarily leaving the office to pick up the kids from school. Research suggests that telecommuters experience a healthier work-life balance. Employers with strong work-life values offer extended maternity, paternity, and personal leaves to care for a new family or elderly parents who need assistance. Childcare support reduces stress because employees are less rushed to drop off their children and less worried during the day about how well they are doing.

Withdraw from the stressor

Removing the stressor may be an ideal solution, but that is not always possible. An alternative strategy is to permanently or temporarily take employees away from the stressor. Permanent withdrawal occurs when employees are transferred to other jobs.

### *Change stress perceptions*

You have earlier learnt that employees experience different levels of stress in the same situation because of their perceptual differences. Therefore, changing perceptions of the situation can minimize stress. This strategy does not involve ignoring risks or other stressors. Rather, it involves strengthening the self-efficacy and self-esteem of a person so that job challenges are not perceived as threatening.

Control the consequences of stress

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Managing workplace stress does also involve controlling its consequences. Research studies show that physical exercise reduces the physiological consequences of stress by helping employees lower their respiration, muscle tension, heartbeat and stomach acidity. Beyond fitness programs, some companies offer wellness programs that educate and support employees in terms of better nutrition and fitness, regular sleep, and other healthy habits. Another way to control the physiological consequences of stress is through relaxation and meditation.

### **Employee Assistance Programmes**

Now-a-days many large firms offer **employee assistance programs** in the form of counseling services that help employees overcome personal or organizational stressors and adopt more effective coping mechanisms. Personal problems and family problems are solved through these programmes. Employee assistance programmes can be one of the most effective stress management interventions where the counseling helps employees understand the stressors, acquire management skills and practice those skills.

Receive Social Support

Receiving social support from co-workers, supervisors, family, friends, and others is one of the more effective stress management strategies. Social support refers to the person's interpersonal transactions with others and involves providing either emotional or informational support to buffer the stress experience.

Social support reduces stress in at least three ways. First, employees improve their perception that they are valued and worthy. This, in turn, increases their self-esteem and perceived ability to cope with the stressor. Second, social support provides information to help employees interpret, comprehend, and possibly remove the stressor. Finally, emotional support from others can directly help buffer the stress experience. People seek out and benefit from the emotional support of others when they face threatening situations.



### **ACTIVITY - IV**

What strategies do you adopt for managing job stress?

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## COMMUNICATION

### Objectives

In this lesson, you will study the importance of organizational communications and the methods of communications. After going through this lesson, you should be able to

- Appreciate the need for communications and their complexities
- Understand the communication process along with the barriers of communication
- Distinguish between various methods and forms of communication and
- Suggest measures for improving organizational communications.

### Structure

This lesson is dealt with incorporating the following contents:

- SIGNIFICANCE OF COMMUNICATION
- COMMUNICATION PROCESS
- COMMUNICATION BARRIERS
- TYPES OF COMMUNICATION
- MANAGING EFFECTIVE COMMUNICATIONS

### SIGNIFICANCE OF COMMUNICATION

In a knowledge-based economy, organizations cannot function without communication. Employees require a high degree of communication competence. By communication competence, we mean a person's ability to identify appropriate communication patterns in a given situation and apply that knowledge in achieving goals. People strong in communications learn quickly the meaning of the words and

symbols used and they can easily decide. Competent people can better determine whether a telephone call, a personal visit or e-mail would be the effective medium and which medium of communication is best in a given situation to convey the message to other people. You may understand that corporate managers spend a large part of their time and energy in communicating to different sections of the people within and outside the organization. Naturally, such people require a high degree of communication competence to be effective.

In an organization, you may understand that employees are like organization's brain cells and communication is like the nervous system that carries the information to the vital parts of the organizational body. Organizations become effective through knowledge dissemination to the employees. By this knowledge, managers keep themselves better informed to be able to take wise decisions. Apart from helping in decision-making and in knowledge management, communication plays an important role in coordinating the work activities. Communications bring people together and make them perform the jobs like a team. In the process, it provides employees social support for getting themselves relieved of work related stress.

## COMMUNICATION PROCESS

Communication refers to the process by which the information is transmitted and understood between two or more people. You may note that transmitting the sender's intended meaning is the essence of good communication.

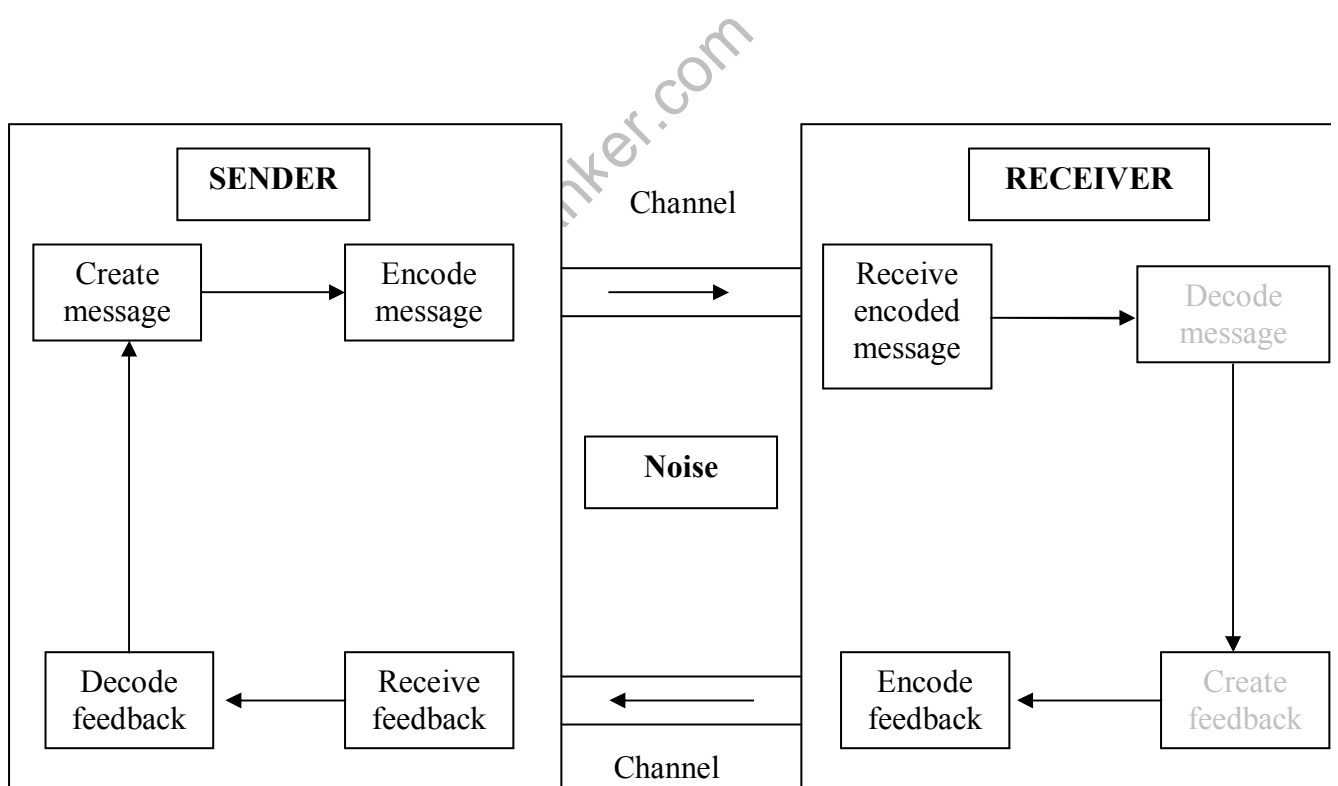
It is needless to say that communication involves two people in the process - a sender and a receiver. One person alone cannot communicate. It may be noted that if a person loudly makes a cry for help, and if it is not heard by any body, the communication is not complete and the person will not get the expected help. In the similar way, if a manager sends information to the workers at bottom level, he has no reason to believe that he has communicated. Transmission of the message is only a

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beginning. There is no communication until the information is received, read and understood by the employee at the other end. Therefore, you have to understand that communication is what the receiver understands, but not what the sender says.

The communication process refers to the stages through which the message passes from the sender to the receiver. In this process, the sender forms a message and encodes it into words or symbols. The encoded message is transmitted to the receiver through a channel or medium. The receiver senses the incoming message and decodes it for understanding the message. Further, in most of the situations, the sender looks for confirmation that the message has reached the receiver. This happens in the form of feedback or some kind of acknowledgement. It may take the form of a reply given by the receiver. The reply is to be again encoded, transmitted through a channel, received and decoded by the sender of the original message. You have to note here that feedback repeats the communication process. You can understand all this through the following diagram.





### Diagram: The Communication Process

The different steps in the above process are elaborated below.

#### Sender

The sender is the source of the message that initiates the communication. The sender of information has a message or purpose of communicating to one or more other people. As you are aware, a manager in an organization has to communicate information about the tasks to be achieved or a production deadline to be met by his subordinate employees. Without a reason, purpose, or desire, the sender has no information/message to send.

#### Encoding

In the next stage, encoding takes place when the sender translates the information or message into some words, signs or symbols. Without this encoding the information cannot be transferred from one person to another. In encoding of the message, the sender has to choose those words, symbols or gestures that he believes to have the same meaning for the receiver. While doing so, therefore, the sender has to keep the receiver in mind and accordingly communicate with him in the way the receiver understands it.

The message may be in any form that can be felt and understood by the receiver. Speech is heard; words are read; gestures are seen or felt and symbols are interpreted. For example, there are several communications we make with a wave of the hand or with a nod of the head.

#### Channel

The channel is the medium used for transmission of information or message from sender to receiver. There are various media like telephone, mail through post, internet, radio, TV, press etc. For communication to be effective and efficient, the channel must be appropriate for the message. A phone conversation, you will agree, is

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not a suitable channel for transmitting a complex engineering diagram. An express mail may be more appropriate. The needs and requirements of the receiver must also be considered in selecting a channel. If the receiver is illiterate, sending the message through postal mail is not relevant. Similarly, you cannot select the medium of telephone, if the receiver does not have a telephone with him.

You may note that, the managers in the organizations, inspite of a number of channels available for them, often fail to select the right one. Some times, their choices are guided by their habits or personal preferences. A manager may use the telephone because he dislikes writing. Another manager chooses to write a letter when e-mail would be more effective.

You should remember that written and graphic communications like letters, reports, and memos serve the purpose of clarity and also provide a permanent record. On the other hand, telephone and oral communications have the advantage of immediate feedback. Therefore, in choosing the appropriate channel, the manager must decide whether feedback is important.

#### Receiver

The receiver is the person whose senses or perceives the sender's message. There may be just one receiver or a large number of receivers, when a memo is addressed to all the members of an organization. As already pointed out, the message must be prepared with the receiver's background in mind. An engineer in a software organization should avoid using technical terms in communicating with his family members. It should be recognized that if the message does not reach a receiver, no communication takes place. Even, when the message reaches the receiver, if he cannot understand it, again there is no communication.

#### Decoding

Decoding is the process through which the receiver interprets the message and



translates it into meaningful information. It may be remembered that decoding is affected by the receiver's past experience, personal assessments of the symbols and gestures, expectations, and mutuality of meaning with the sender.

#### **ACTIVITY - I**

What are the steps in communication process?

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### **COMMUNICATION BARRIERS**

As seen above, the process of communication is lengthy involving different stages. For effective communication, every stage is crucial. It is possible, hurdles may arise at any stage in this lengthy process blocking the understanding of the message by the receiver. These hurdles are known as barriers to communication. They may entirely prevent a communication, filter a part of it or distort it in meaning. There are three types of barriers - personal, semantic and physical.

#### **Personal Barriers**

These barriers arise out of human emotions, values, and poor listening habits. These are very common occurrences in work situations. We have already seen how our personal feelings can limit our communications with other people. Personal barriers result from psychological distance between people who may be physically close. For example, a subordinate perceiving his superior to be authoritarian which he dislikes, cannot understand his directions well.

Our emotions also act as filters in almost all our communications. We tend to see

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and hear what we are emotionally "tuned" to see and hear leading to communication failure. Similarly, we communicate our interpretation of reality rather than the reality itself. Therefore, what we understand is when the sender's and receiver's perceptual profiles are at variance with each other, smooth and effective communications do not take place between them.

#### **Semantic barriers**

Semantic barriers arise out of language problem. As you are aware, the sender uses a language of words and symbols for communicating to the receiver. Words usually have a variety of meanings. As a result, the receiver may not get the same meaning of the word as intended by the sender. In such case, the receiver does not properly understand the message or he may understand it to the contrary. For example, the word 'steps' has different meanings. It may refer to the staircase, or the measures to be taken to solve a problem, or the steps of a dancer in a dance programme. Whenever we select a meaning that is not factual, we are making an inference. Inferences are an essential part of most communications. We cannot avoid them all together. In our day-to-day conversations also, very often we hear people saying 'I mean' or "it is not what I mean" because of the possibility for making different inferences.

#### **Physical barriers**

Physical barriers exist in the environment in which the communication takes place. When you are working in a factory where machines produce a lot of sound, you cannot talk to the other one even if he is very close to you physically. Likewise, telephone interruptions, walk in visitors, or attending to other matters are very common hurdles in the process of communication.

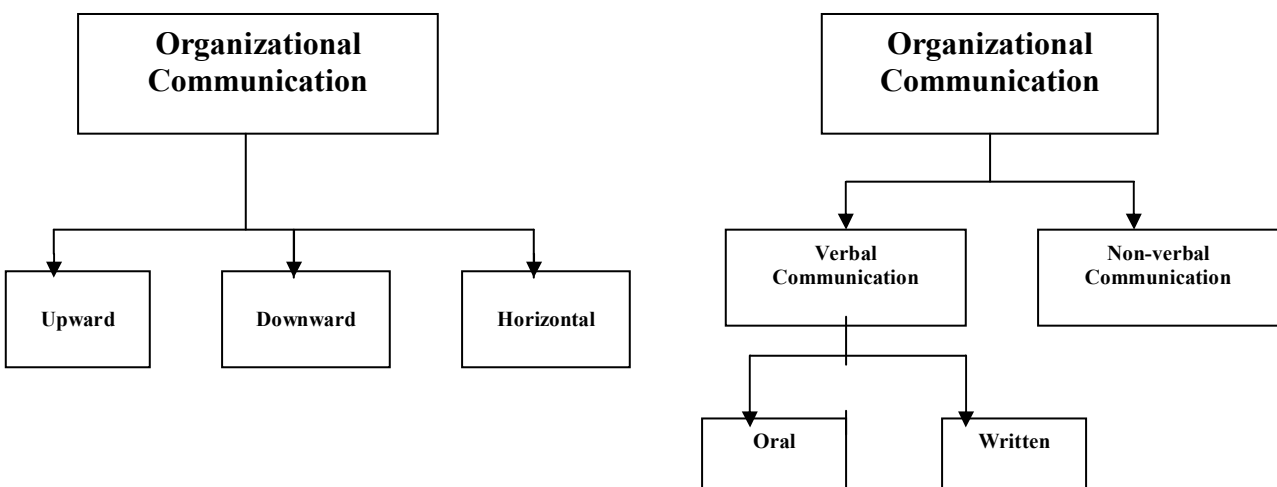
#### **ACTIVITY - II**

What do you understand by semantic barriers?

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## TYPES OF COMMUNICATION

Communications in organizations may be classified as downward, upward and horizontal communications. They may also be classified as verbal and non-verbal communications as shown in the following diagram. Verbal communications include oral and written communications. Non-verbal communications refer to the body language or the use of gestures and body movements. In fact, no method of communication is independent. You can see complimentarity between them. For example, a combination of oral communication and communication through gesture would be more effective. All these types of communications are discussed below:



### Downward Communication

Communication downward in an organization is the flow of information from

top to bottom. It is through this, the hierarchical system between superiors and subordinates is maintained. Downward communications are made to the employees at lower levels through directions and instructions. Conforming to the formal channel of communication, downward communications pass through different hierarchical levels in the organization. Downward communications are used for the practice of delegation of authority in which the superior managers assign the tasks to be performed by their subordinates, sanction authority and also make them accountable for achieving the results.

### Upward Communication

In upward communication, information flows from bottom to top. This is intended to facilitate managers to receive information from the operational levels. Higher levels of management should get the feedback information from lower levels in the form of reports and responses. They need to know how an assigned task is performed by the subordinates and also their reactions and satisfaction.

Upward communications tend to become slow. They are usually subject to delay and filtering. A manager at each level is reluctant to take a problem upward because to do so is considered as a confession of failure. Therefore, each level delays the communication in an effort to decide how to solve the problem. If the problem cannot be solved, the message may be filtered so that higher management receives only a part of the information. An employee tends to convey the superior only what the employee thinks the superior wants to hear. Therefore, each subordinate has his own reasons for selecting, interpreting, and other filtering actions.

### Horizontal Communication

This is also known as lateral communication, which takes place among people equal in hierarchy. These kinds of communications are necessary for achieving mutual support and mutual cooperation for the effective of functioning of various

organizational units. After all, organizational activities are mutually dependent and hence coordination of all these activities is necessary for which horizontal communications are very essential. For example, as a Marketing Manager, you have to communicate to the production manager the market trends, customer expectations, changes in product demand etc. On the basis of your market knowledge, you may share information with him about the changes to be brought about in product features in terms of its size, colour, packing etc. Similarly, a stores manager and a finance manager have to work together for optimization of financial resources. A HR manager has to work with other managers to exchange information about the manpower supply, training and development, and their welfare and wellbeing.

### **Verbal Communication**

This includes both oral and written communications, which are discussed below:

#### **Oral Communication**

The most common form of communication in organizations is oral. It takes the form of face – to – face conversation when the speaker and listener are physically at one place or they may use a public address system, an intercom or a telephone when they are at a distance. Oral communications are effective because the receiver not only hears the message but also simultaneously observes the gestures used, the tone, volume, pitch of the spoken words. The voice of the speaker plays an important role in influencing the attitudes and feelings of a person rather than the written words used for communications. Further, an immediate feedback can be obtained avoiding any kind of delay. The speaker can convey the personal warmth and friendliness apart from the message. It is, in fact, a less expensive form of communication.

However, a few limitations also can be found in oral communications. Since it is not recorded, it does not serve the purpose of reference in future. Organizations require more of recorded documents to guide their future policies. Further, when the oral communication passes through the long hierarchical channel, it is likely to be misinterpreted and finally distorted information is passed on to the people. You

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remember that if management is entering into an oral agreement with the workers' unions, after some time, they fail to recollect what it is agreed upon or if they want, any of the party may purposefully set it aside or may back out. In the absence of evidence, this attempt by either party cannot be checked.

#### **Written Communication**

Written communication is also a part of verbal communication, which takes the form of letters, reports, memos, instructions, guidelines, policy manuals, annual reports etc. Since organizations exist for a long time, written communications are essential for their effective functioning. Human memory is short and therefore, it is desirable to communicate to people in written form. Apart from serving as an evidence of the events, it provides a permanent record for future reference. The possibility of misinterpretation or misunderstanding of the message is little. It can be checked for accuracy before it is transmitted.

Written communication, however, requires skills and abilities on the part of managers or workers in the organizations. As we are aware, an ordinary worker may not be very strong in his writing skills. Even some managers also, at times, prove ineffective in their written communications compared to their oral communications. You may also note that if there is confidential information to be communicated, written form of communication is not desirable because of the possible leakage.

#### **Non-verbal Communication**

In this form of communication, non-verbal methods are used like the movement of body organs. It is also called body language. People are engaged in this kind of communication through a handshake, waving the hand, a smile, a stare, an eye

wink, a nod of the head, raise of eyebrows, shrugging of shoulders, bending the body forward, leaning backwards and in many other ways. In the day-to-day communications, you may be doing all these things. All these movements of the body convey their respective meanings to others.

In organizations, the managers as well as workers are required to make use of the bodily gestures for the purpose of communications. As has already been pointed out, if the physical noise in the environment creates a hurdle for oral communications, you have to necessarily communicate through appropriate non-verbal methods. You have to understand that written communications are not adequate in conveying your emotions, feelings, or dispositions for which some kind of facial expression is required, may be to show your love or anger, fear or frustration, arrogance or anxiety.

It may, however, be recognized that the instances of communicating exclusively by using non-verbal methods are very few and far between. More often these are combined with oral methods communications to make the latter more effective. In fact, one cannot engage in oral communication without the use of non-verbal methods.

### ACTIVITY - III

Distinguish between verbal and non-verbal communications.

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## MANAGING EFFECTIVE COMMUNICATIONS

Some guidelines would be helpful to management to improve their skills in communication to avoid the barriers in communication and also to achieve the goals

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and targets. Every organization does need effective communications for its success as it carries out its business in a knowledge society. Communication should be effective for converting information into strength and a resource for the organization. Management should realize that communication plays a significant role in motivating the employees, building high morale among them, providing satisfaction in work, developing employee potential and performance, changing employee attitudes and increasing their loyalty and commitment to the organization. Managers should understand the importance of making clear ideas and messages for effective transmission to the receivers for obtaining positive responses from them. Communication should be very comprehensive and timely. In the modern society, managers do well in their communications by using latest technology in an appropriate way.

### ACTIVITY - IV

What measures should management follow for improving communications?

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UNIT IVLESSON 1GROUP DYNAMICS

## LESSON OUTLINE

- Definition & Types
- Concept of Group Dynamics
- Reasons for Informal Groups
- Characteristic features of informal groups
- Major elements of Group Behaviour
- Group & their members
- Group functions
- Principles of Group Dynamics
- Reasons for emergence of informal groups in an organisation.

## LEARNING OBJECTIVES

***After reading this lesson you should be able to***

- Define and understand the concept of group
- Classify the different types of groups
- Understand the reasons for the emergence of informal group
- Recognise the characteristic features of informal group
- Realise the group behaviour
- Understand the relationship between the groups & their members
- Recollect the functions of a group.

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## LESSON-1

### GROUP DYNAMICS

Groups extensively influence the behaviour & performance of members as also the overall behaviour of the organisation.

**Definition:** “Cluster of two or more individuals who interact with each other on a relatively enduring basis, identify themselves as belonging to a distinct unit & who share certain common activities, interests, values, goals, commodities, beliefs & perceptions”

A group is distinct from a crowd in a bus or watches a cricket match.

### Types of groups

#### 1. Small & large groups

- i. **Small:** Compact cluster of a few individuals- face to face inter personal relations, interactions & inter dependencies
- ii. **Large:** A collection of a few small groups. (A State, Nation, group of Nations, European community, SAARC, etc.) - Inter personal relations, interactions, and inter-dependencies are somewhat weak in a large group.

#### 2. Primary & Secondary groups [FORUM]

- i. **Primary:** Almost identical to small group- (ex. A work group, a friendship group)
  - All small groups need not be primary groups
  - existence of a shared sense of identity among members and their common values, interest & goals.
- ii. **Secondary:** - larger entity & is made up of several primary groups
  - Interpersonal relations & unity of purpose are weak
  - less cohesive than a primary group

#### 3. Formal & Informal group

- i. **Formal:** A work unit that is established as a part of an organisation and it's structure
  - It is governed by rules, procedures & regulations
  - ex., various work units, sections, depts., divisions, established by an

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organisation to achieve it's goals.

#### Two types of formal groups:

- a) Command group; and
  - b) Task group.
- a) **Command group:** Consists of a manager and a set of his immediate subordinates directly reporting to him- Permanent work group-Undertakes regular activities.
  - b) **Task group:** Assembled for undertaking certain specified tasks
    - Ex., - A committee or a project group is a task group.
    - It can be either a standing group or an adhoc group.
  - ii. **Informal group:** Voluntary unofficial formation of a small number of members of an organisation who are mutually attracted and aligned by virtue of certain commonly shared background interests, values & needs.
    - Members seek social alliances, interactions & relationships on a selective basis in the course of their association with their jobs. (Ex. Music groups; Sports groups; Magazine circles, etc.)

#### Characteristics of a group:

1. **Common motive(s) to group interaction**
2. Group structure with a hierarchical status system
3. Standardisation of norms & values
4. Differential effects of the interaction on individual group members.

#### Other classification of groups:

1. **Apathetic groups:** People with low skills and who lack unity and power and are usually discontented
2. **Erratic groups:** Composed of relatively skilled employees who display a considerable unity of purpose.
3. **Strategic groups:** People with high skill, display a high degree of unity, generally productive.
4. **Conservative groups:** People at top level of an organisation display considerable self-confidence

**According to purpose:** Almost like informal

1. **Vocational groups:** Business conference, teachers association, etc.
2. **Instructional groups:** People who have enrolled themselves for the same course or in study or similar purpose.
3. **Governmental groups:** Municipal councils, School management boards, Student's unions etc.
4. **Religious groups:** Jain, Samaj, YMCA, YWCA, etc.
5. **Fraternal groups:** Social fraternities and sororities, etc.
6. **Recreational groups:** Cricket, Volleyball clubs, Picnic groups, etc.
7. **Social groups:** Bridge clubs, etc.

**According to Length & Time**

1. **Temporary or Momentary:** One meeting, Conference, Summit meeting, etc.
2. **Continuing Group:** Meet regularly over a long period of time, BOD, etc.

**According to intimacy dimension**

1. **Primary group:** Characterised by intimate face-to-face association & cooperation.
2. **Non-primary group (secondary):** Group does not interact intimately. Membership is voluntary and easily withdrawn.

**Concept of Group Dynamics (GD):**

Group Dynamics is a field of study concerned with research & analysis of the various forces in and patterns of the formation of small informal groups in organisations.

**Kurt Lewin-** a social psychologist of the university of Lown, USA was the founder of GD as an academic & research discipline in 1930's.

**GD is concerned with promotion of one's understanding on the following aspects:**

1. Why & how groups are formed?
2. What forces are operative in the structure of groups?
3. How groups grow, decline and die?
4. How they make decisions & solve problems?
5. How they achieve unity & handle conflict?
6. How they change and adapt themselves?
7. How they influence task performance & member satisfaction?

**Major elements of Group Behaviour:**

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1. Activities or Tasks.
2. Interaction
3. Group norms
4. Conformity of Behaviour
5. Cohesiveness
6. Role & Role playing
7. Conflicts
8. Status & power
9. Informal leadership
10. Informal Hierarchy
11. Group culture.

**Principles of Group Dynamics: (According to Cartwright)**

1. The barriers between leaders & the led should be broken down
2. Greater influence
3. Greater the prestige, the greater the influence
4. Successful efforts- results in making them conform to the norms.
5. Pressure for changes by a shared perception by members
6. Change must be shared by the members of a group.
7. Bring readjustment in order to eliminate strain.

**Reasons for emergence / formation of informal groups in organisations**

1. Proximity & Similarity
  - i. Same work space
  - ii. Same or similar type of work
  - iii. Same economic, education, ethnic, communal, regional background.
  - iv. Interaction regularly with each other in the course of their organisational activities.
2. Need Satisfaction:
  - i. Safety (Physical, Psychological safety)
  - ii. Reduction of anxiety and uncertainty
  - iii. Social affiliation needs (belonging, to be cared and accepted, friendship, get away from isolation & anonymity)
  - iv. Ego needs (for respect, influence, Power & status)
  - v. Self-actualisation needs (Needs for self-development, creative self-expression, achievements, etc.)
  - vi. Other Needs: Need for information, participation; relaxation, stress reduction, emotional support, etc.)



3. Promotion of interest & pursuit of goals:  
Protection & promoting the economic & other interests of members (Retiring people, new entrants, professionals, literacy, artistic states, interests, goals etc.)

**Characteristic features of Informal groups:**

1. Small in size-homogeneous in one or more respects
2. Share certain goals, values & beliefs
3. Participate in a system of inter-locking roles & relationships
4. Strong elements of social control over the behaviour & performance of members
5. Cooperation, cohesiveness and conflict co-exists in informal groups
6. Strong social rankings among members depending on their power relations even though there are no superior-subordinate relationship as such
7. It has got its own culture
8. Membership is overlapping- an individual may belong to more than one formal groups
9. Members behave in a natural & relaxed manner & generally 'feel at home'.
10. Membership is voluntary
11. Mostly oral communication in a direct face to face manner.
12. Groups are loosely structured
13. The goals tend to be different from & are often in conflict with the goals of the organisation

**Informal groups & Informal organisation****Informal organisation:**

- A network of several overlapping informal groups.
- Inter personal relationships, interactions and inter-dependencies tend to be less intense & intimate than in an informal group.

**Informal groups:** Informal groups are formed by members who are attracted each other for some reason or the other.

**Group Behaviour:** Social process by which people relate and respond to each other & perform their respective roles as members of integrated clusters.

**Major factors which affect and influence the group process**

- (a) Group goals & Tasks: Survival, self-reliance, freedom of action, adaptation, unity, etc. Tasks-vary-complexity, skill requirements, co-ordination requirements, specificity, measurability & divisibility.

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- (b) Group size: Large enough to provide diversity of talents and viewpoints; and small enough to facilitate interactions [5 to 7 members].

- (c) Group composition: Personality traits, physical characteristics, abilities & skills, needs & expectations. Groups are unlikely to be totally homogeneous or heterogeneous in their composition.

**Group process & functions:**

1. Assumption & Assignment of roles-(explicitly or implicitly indicated) [Task related roles; relations oriented roles; self oriented roles]
2. Group problem solving & decision making (for ex. BOD problem solving and decision making) committees, logical, methodical, exhaustive decision processes-democratic/participative.
3. Leadership in groups-informal leaders
4. Group communication & interaction sense of "we-ness"
5. Group cohesiveness: The extent of unitedness and knit together.

**Factors which influence group cohesiveness**

1. Social rewards
2. Interaction
3. Homogeneity
4. Goals
5. Leadership
6. Size & structure
7. Atmosphere in the group
8. Group norms: by common consent- unwritten & informal.

**SUMMARY**

In this lesson we have discussed some aspects of group and group dynamics. We have defined the term 'group', classified various types of groups. We have also understood the concept of Group Dynamics as a systematic study of why and how small informal groups and other types of groups emerge, what they do and how they affect the individuals and organisations.

The informal groups have several distinguished features, which include their similarity on one or more aspects, close interaction and participation, etc. They also play

an important role in molding and shaping the behaviour and performance of it's members.

#### Terms and Concepts for Review

- **Group and Group Dynamics**
- Formal & Informal Groups
- Command & Task Groups
- Apathetic and Erratic Groups
- Strategic & Conservative Groups
- Vocational & Instructional Groups
- Governmental Groups & Religious Groups
- Fraternal, Recreational and Social Groups
- Temporary or Momentary Groups
- Regular or Continuing Groups
- Primary and Non-primary Groups
- Informal Organisation and Informal Groups
- Group Behaviour

#### Self Assessment Questions

1. What are the characteristic features of informal groups?
2. Define the concept of group. What are the principles of group dynamics?
3. How do informal groups emerge and how they do benefit to individual members?
4. Write short notes on
  - a) Informal Group
  - b) Informal organisation
  - c) Group Norms
5. Distinguish between
  - a) Command group and Task group
  - b) Formal group and Informal group
  - c) Primary group and Secondary group
6. What are the major elements of Group Behaviour?
7. What are the major factors which affect and influence the group process?

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### LESSON -2 LEADERSHIP

#### Lesson outline

- Meaning, Definition & Nature of leadership
- Leadership traits & functions
- Managerial skills of a leader
- Leadership & Management
- Theories of Leadership
- Leadership styles
- Effectiveness of leadership
- Measures for developing leaders

#### LEARNING OBJECTIVES

After reading this lesson you should be able to

- Understand the meaning & nature of leadership
- Recognize the traits, characteristics & functions of a leader
- Recall the managerial skills of a leader
- Distinguish between leadership & management
- Classify the styles of leadership
- Categorize the theories of leadership

- Substantiate the effectiveness of leadership

## LESSON 2

### LEADERSHIP

Leadership is a much studied topic in management because of a certain mystique associated with it and because organizations and societies are generally dependent on leaders for their survival and development. Most of the basic organizational problems such as a distorted structural design, poor morale of managers and employees, communicational gaps, resistance to change, inefficient controls, iniquitous salary structure, resources scarcities, incompatibility with external environment and so on, are attributed to poor leadership, especially at the top.

#### Meaning and nature of leadership:

Leadership may be defined as a position of power held by an individual in a group; which provides him with an opportunity to exercise interpersonal influence on the group members for mobilizing and directing their efforts towards certain goals. Leadership position exists in most group settings irrespective of the size of the group. Leadership is an influence process. The leader is in a position to shape, regulate, control, and change the attitudes, behaviour and performance of his group members.

**Definition:** “The relationship in which one person, or leader, influences others to work together willingly on related tasks to attain that which the leader desires.”

**Koontz & O’ donnel:** “The ability of a manager to induce subordinates to work with zeal and confidence.”

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- Outstanding aspect of management. (Ability, creativeness, initiative, inventiveness, confidence, cooperation, willingness of the people, employee morale)

In any group situation the leader has a few bases of power by virtue of which he is in a position to influence the behaviour of group members. They are

- a. Knowledge, information and experience
- b. Resources for dispensing favours, rewards and penalties.
- c. Formal authority
- d. Charisma
- e. Distinct personality characteristics like for example, will to dominate, ability to establish rapport, skill to communicate, identify with and understanding of people, decisiveness and so on.

#### Characteristics of leadership:

- a. Influence
- b. Involves the leader & his followers (a specific goal, situation, communication, feedback)
- c. A reciprocal relationship between the leader & his followers
- d. A leader must be acceptable to his followers –employees
- e. A leader gains influence through their speech behaviours.

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**Leadership functions:**

A leader whether formal or informal, is required to undertake several functions in relation to his group. David Bowers and Stanley Seashore classify the above functions into four categories for conceptual purposes:

- a) **Support:** Behaviour, which enhances the members' feelings of personal worth and importance.
- b) **Emphasis on goals:** Behaviour, which stimulates enthusiasm for meeting the group goals with excellence.
- c) **Facilitation of work:** Behaviour which manifests itself in such activities as planning, scheduling, coordinating and providing resources, information and other infrastructural facilities.
- d) **Facilitation of interaction:** Behaviour, which encourages group members to develop members to develop close and mutually satisfying relationships.

**Role of a leader:**

- a) **Group task roles:**
  1. Initiator - contributor
  2. Information seeker
  3. Opinion seeker
  4. Information giver
  5. Opinion giver
  6. Elaborator
  7. Coordinator
  8. Orienter
  9. Evaluator - critic
  10. Energizer
  11. Procedural technician
  12. Recorder
- b) **Group building & Maintenance roles:**
  1. Encourager
  2. Harmonizer
  3. Compromiser
  4. Expeditor
  5. Standard setter or ego ideal
  6. Group observer & commentator
  7. Follower

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- c) **Individual roles:**
  1. Aggressor
  2. Blocker
  3. Recognition seeker
  4. Self-confessor
  5. Playboy
  6. Dominator
  7. Help-seeker
  8. Special help pleader

**Importance of leadership:**

1. Directing group activities
2. Better utilization of manpower
3. Source of motivation
4. Developing good human relations
5. Promoting the spirit of coordination
6. Fulfilling social responsibilities
7. Influence the behaviour
8. Creates confidence
9. Increases employee morale
10. Helps in the use of formal authority effectively

**Qualities of a leader:**

In the opinion of **Discount slim**

1. Courage
2. Willpower
3. Judgement
4. Flexibility
5. Knowledge, and
6. Integrity

**George terry**

1. Energy
2. Emotional stability
3. Knowledge of HR relations
4. Personal motivation
5. Communication skill
6. Teaching ability
7. Social skill; and
8. Technical competence

*Chester I Burnard*

1. Vitality & Endurance
2. Decisiveness
3. Persuasiveness
4. Stability in behaviour
5. Intellectual ability; and
6. Knowledge

*Ordway Tead*

1. Physical & nervous energy
2. Self- confidence
3. Moral qualities
4. Self sacrifice
5. Paternalism (paternal affection)
6. Fairness (justice)
7. Initiative
8. Decisiveness
9. Dignity and
10. Knowledge of men

*Nitisdh R. De*

1. Physical & nervous energy
2. Endurance and vigour of body & mind
3. Readiness to shoulder responsibility to discharge it
4. Unfaltering friendliness and effective
5. Tolerance & patience
6. Sense of fairplay & justice
7. A high degree of integrity
8. Decisiveness & initiative
9. Knowledge of men
10. Ability to face rough weather opposition.

**HILL**

1. Courage
2. Self confidence
3. Moral qualities

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4. Self sacrifice
5. Paternalism (paternal affection)
6. Fairness (Justice)
7. Initiative
8. Decisiveness
9. Dignity
10. Knowledge of man

**OVERALL QUALITIES OF A LEADER**

1. Energy
2. Emotional maturity & stability
3. Knowledge of human relations
4. Objectivity
5. Empathy - objectively look
  - Respect others
  - Beliefs etc
6. Personal motivation
7. Communication skill
8. Teaching ability
9. Social skill-Understand weak & strong points of employees
10. Technical competence
11. Integrity-Morally sound
12. Conceptual skill
13. Moral courage
14. Flexibility of mind
15. Ability to establish proper priorities

**CAUSES FOR FAILURE OF LEADERSHIP**

1. Inability to organize
2. Unwillingness to do what they would ask another to do
3. Expectation of pay for what they know instead of what they do
4. Fear of competition from others
5. Lack of creative thinking
6. The 'I' syndrome (ego)
7. Over indulgence-alcohol, abuse, etc
8. Disloyalty
9. Emphasis of the 'Authority of leadership' (fear not successful)
10. Emphasis of title
11. Lack of understanding of the destructive effects of a negative environment

12. Lack of common sense.

## DISTINCTION BETWEEN LEADERSHIP AND MANAGEMENT

1. **Narrower-broader:** Leadership is a narrower concept than management in some respects and a broader one than management in some other respects.
2. **Authority-power:** Since leadership is based on power, leaders tend to be prone to exercise their power in a personalized manner.
3. **Tightly structured-loosely structured:** Leadership structures, processes and environment generally more dynamic, flexible and open than in management.
4. **Elective-selective:** In non-management situations, the leadership position of a person arises out of the fact of acceptance by a group of persons who allow themselves to play the role of his electors and followers.
5. **Formal-informal:** Leader-follower relations have a flavour distinct from manager-subordinate relations. Leaders generally identify themselves with the interests and aspirations of their followers.
6. **Formal education and training:** Formal education and training for leadership for leadership are almost negligible and even non-existent unlike in the case of management which has been evolved into a highly popular and somewhat professional discipline.

## MANAGERIAL SKILLS

Managers develop or acquire a range of skills in their jobs. They are briefly described as follows:

- a. **Conceptual skills:** This is the ability to think in abstract terms to form images and ideas, to visualize and understand the future and to discern relations and interactions among the elements of a system and changes therein.
- b. **Analytical skills:** These refer to abilities to proceed in a logical, step-by step and systematic manner, to examine the various aspects of specific issues and to understand characteristics of a phenomenon.
- c. **Administrative skills:** They center around ability to act in pragmatic manner, to get things done by implementing decisions and plans, to mobilize and organize resources and efforts, to co-ordinate diverse activities and to regulate organizational events in an orderly manner.

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- d. **Behavioural or inter personal skills:** These skills have to do with the ability to understand people and their problems, needs and feelings, to get along with them, to interact and communicate with them, to provide leadership, to inspire confidence.
- e. **Technical Skills:** Technical skills relate to job knowledge and expertise, ability to apply methods and techniques to work settings, to provide technical guidance and instructions to subordinates.

## THEORIES OF LEADERSHIP

We may classify them into three categories- Personality theories, behavioural theories and situational theories.

**Personality theories:** Personality theories focus on the personal qualities or traits of leaders, either inborn or acquired. The great theory and trait theory fall in this area.

**Great theory of leadership:** One of the early notions of leaderships, which is still popular in certain circle, is that leadership is an inborn quality. This is the great-man theory of leadership, which asserts that leaders in general and great leaders in particular are born and not made. According to the theory leadership calls for certain qualities like charm, persuasiveness, commanding personality, high degree of intuition, judgement, courage, intelligence, aggressiveness and action orientation which are of such a nature that they cannot be taught or learnt in a formal sense. Examples are drawn from such great leaders like Mahatma Gandhi, Mao tse Tung, Kamal ataturk, Abraham Lincoln, General de Gaulle and others.

**Trait theory of leadership:** A modification of the great Man Theory is the Trait theory, which argues that leadership qualities or traits can be acquired. They need not always be born. The trait theory of leadership states that there are certain identifiable qualities or characteristics that are unique to leaders and that good leaders possess such qualities to some extent.

The following list is only illustrative and not exhaustive:

- a. **Intelligence:** Intelligent enough to understand the context and content of their position and function, to grasp the dynamics of environmental variables, both internal and external.



- b. **Personality:** More than outward appearance, certain inner- personality qualities mark out good leaders from others. Such qualities include: emotional stability and maturity. Self-confidence, decisiveness, strong drive, optimism, extrovert ness, achievement orientation, purposefulness, discipline, skill in getting along with others, integrity in character and a tendency to be cooperative.
- c. **Other qualities:** Apart from intelligence and personality attributes, good leaders also possess a few key qualities like open mindedness, scientific spirit, social sensitivity, ability to communicate, objectivity, an abiding interest in people , pragmatism and a sense of realism.

**Behavioural theories:** The focus shifts from personal qualities; or traits to actual behaviour of leaders or dimensions of leader behaviour. The questions asked are; what kind of behaviour from follower behaviour? What do effective leaders do that ineffective ones do not do? For example, are effective leaders task-oriented or employee oriented, democratic or autocratic, permissive or directive? The most systematic and comprehensive research studies in the direction were conducted in USA at Ohio State University and University of Michigan, during 1945-47. The researchers at Ohio State University concluded that there were two broad dimensions of leader behaviour: these are 'Initiating structure' and Consideration.

**Michigan studies:** Employee-centered leaders were associated with higher group productivity and higher job satisfaction.

The Michigan University leadership studies conducted under the direction of Rensis Likert have also identified two dimensions of leader behaviour, similar to those of Ohio University studies. These two dimensions have been termed as job centered and employee-centered leader behaviour. The job centered leader behaviour closely corresponds to 'initiating structure' while employee centered leader behaviour correlates with 'consideration'.

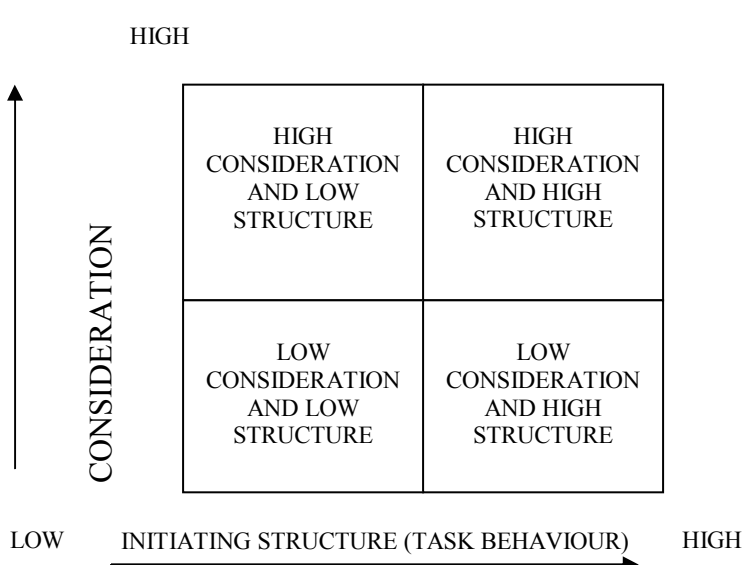
### Ohio State Studies

The leader is friendly approachable, define the activities of subordinates so that organizational goals are accomplished.

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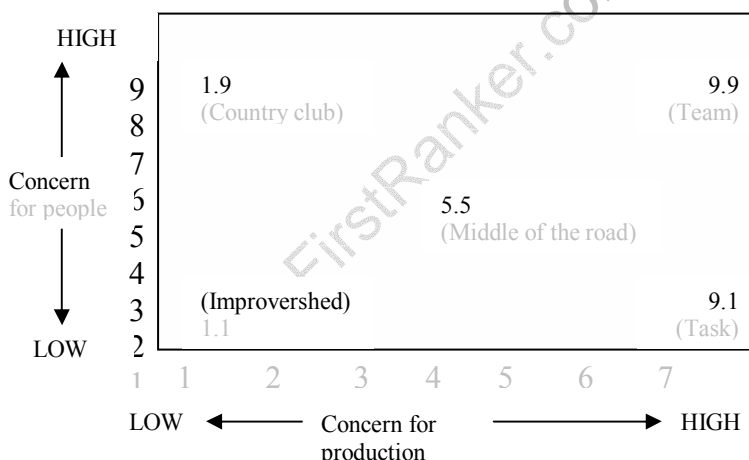
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**Chart : OHIO STUDIES: LEADERSHIP**



**Managerial grid:** (Robert R. Blake & Jane S. Mouton)

1. Concern for the people, and
2. Concern for production



**Managerial Grid:** 'Managerial grid' as developed by Robert Blake and Jane Mouton, is a graphic model of alternative combinations of managerial styles or orientations or behaviours, on two-dimensional space. The two styles or orientations are: concern for production and concern for people. These are shown on horizontal and vertical dimensions of the grid on 1 to 9 scale or degree. Blake and Mouton argued that a



leader's managerial style is a point on the grid; they have identified five combinations of styles, for illustrative purposes, out of 81 possible combinations.

**Improvised leadership 1.1:** Low concern for production and for people.

**Country club leadership 1.9:** Low concern for production and high concern for people.

**Task leadership 9.1:** High concern for production and low concern for people.

**Team leadership 9.9:** High concern for production and people.

**Middle of the road 5.5:** Moderate concern for production and people.

**Situational theory:** Suitable in one situation or the leader has to change his style from situation to situation (adaptive type)

**The great man theory:** Alexander the great, Jesus Christ, Julius Caesar, Winston Churchill, Mahatma Gandhiji, John Kennedy, etc how they became leaders? What made them leaders?

**Contingency theories:**

- A. **Fred Fielders contingency theory:** Least preferred co-worker Questionnaire (LPC) measure whether the person is
- Task oriented or
  - Relationship oriented

**Task oriented:** The high LPC person

**Relationship oriented:** The low LPC person

- B. **Robert Houses path goal theory:**

**Robert Houses path goal theory:** The path goal theory of leadership was originally developed by Martin Evans and subsequently refined by Robert house. The theory is related to situational /expectancy theories of motivation. Four types of leader behaviour based on member expectations may be conceptualized.

- i. **Directive leadership:** The leader is expected to define the tasks and responsibility of his group members, set performance and reward norms, clarify the rules and regulations as applicable, provide guidance, advice and instructions as necessary and monitor their performance.

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- ii. **Supportive leadership:** The leader establishes warm interpersonal relationships with the group, understands and shares their aspirations and feelings, shows concern for their welfare and promotes group cohesiveness.
- iii. **Participative leadership:** Here members expect the leader to keep them informed on relevant tasks, goals and situations, involve them in decision making, solicit their ideas and consult with them often.
- iv. **Achievement oriented leadership:** The leader is expected to develop and utilize the skills and talents of group members, set challenging goals to them, make tasks interesting and meaningful, and give some freedom to people in their jobs.

Effective leaders clarify the path or means by which subordinates can attain both high job satisfaction and high performance. The leader's function is to motivate and help subordinates reach their highly valued job related goals. There are two contingency variables, viz., Employee characteristics, and Task characteristics

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Fielder’s Contingency Theory of Leadership

Leader Member Relations	Good	Good	Good	Good	Good	Poor	Poor	Poor
Task Structure	Structured	Structured	Unstructured	Unstructured	Unstructured	Structured	Structured	Unstructured
Position Power	High	Low	High	Low	High	High	Low	Low
Situational Favourableness	Very Favourable			Moderately Favourable			Very Unfavourable	
Recommended Leader Behaviour	Task-Oriented Behaviour			Person-Oriented Behaviour			Task Oriented Behaviour	

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**Likert’s management systems:** Rensis Likert of the University of Michigan, USA and his associates made extensive survey research on management and leadership patterns in a large number of organizations. He assigned numbers 1 to 4 to his conceptual models to indicate the stages of evolution in the patterns and styles of management in organizations.

His systems are:

- System 1 Exploitative-authoritative
- System 2 Benevolent-authoritative
- System 3 Consultative- authoritative
- System 4 Participative-democratic

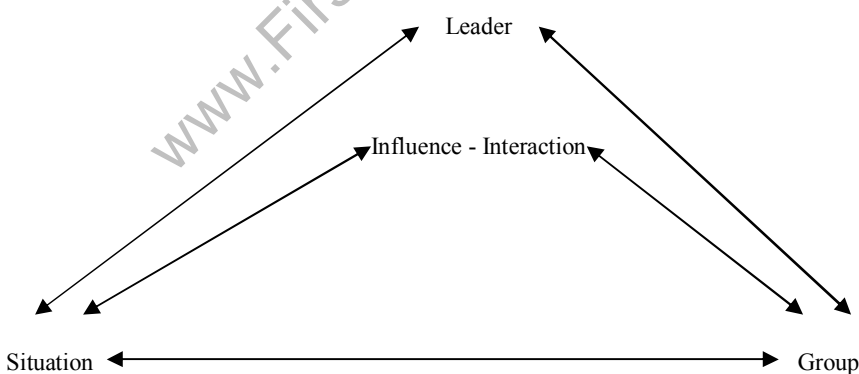
**System 1:** Managers/Supervisors and organizations in the system are highly autocratic.

**System 2:** This is highly less primitive than the first. A sort of master-servant relationship exists between the manager and employees in this system.

**System 3:** In this setting, management evinces some interest in employees and their contributions. They are often consulted and their views are taken into account by managers.

**System 4:** This is an ideal type management system. The relationship between managers and subordinates are cordial and friendly.

**Situational/Contingency approaches to leadership:** Some individuals are thrown into leadership positions by the inter play of situational forces. Examples are such diverse types of leaders as Hitler, Mussolini, Churchill, Roosevelt, Mao and Gandhi.

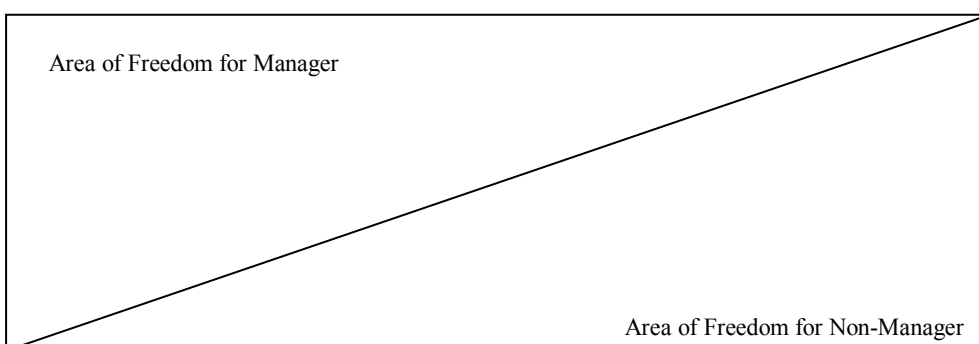


**Situational Factors:** The range of situational factors in leadership may be stated in terms of the following classification

- Forces in the leader:** They include the leader's specific personality characteristics, orientations, qualities and skills, which are relevant for the function of leadership.
- Forces in group:** Forces such as perceptions and attitude of group members towards the leader, towards their tasks and towards organizational goals, needs and expectations of group members, their skills and knowledge, extent of group size, nature of group structure and unity and so on.
- Other situational forces:** The nature of the task, its complexity and technology, its importance in relation to other tasks, form one set of situational forces. The structure of the organization, authority responsibility relations, organizational values and goals, policies and postures, reward leader and his group, are another set of situational forces.
- Leadership continuum:** One of the early situational theories was developed in 1958 by Robert Tannenbaum and Warren Schmidt. They, however, modified and refined theory in 1973. They placed leadership behaviour on a continuum, which consists of a range of styles or patterns.

Manager Power and Influence

Non-Manager Power and Influence



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Manager able to make decision which Non-managers accept	Manager must sell decision before gaining acceptance	Manager presents decision but must respond to questions from Non-Managers	Manager presents tentative decision subject to change after Non-Manager inputs	Manager presents problems, gets inputs from non-managers, then decides	Manager defines limits within which non-managers make decisions	Manager and non-managers jointly make decision within limits defined by organization constraints
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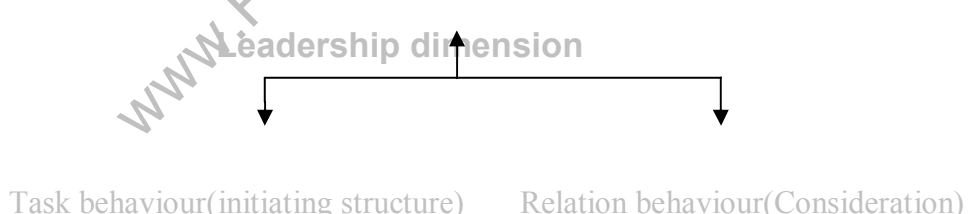
**Autocratic** **Paternal**  
**Participative**

**Continuum of Leadership Behaviour**

**Contingency theory:** Fred Fielder developed a situational model of leadership, which is termed as contingency theory of leadership. Fielder lists three variables or factors, which govern the situation in which, the leader functions: These are

- Leader-member relations (the extent to which the leader is accepted, respected and trusted by members of his work group).
- Task structure (the extent to which the jobs of members of the work group are defined, routine and known).
- Position power (extent of formal authority commanded by the leader as also the rewards and penalties which he can dispense to members).

**Hersey and Blanchard's situational theory**



The leadership style should change as an employee matures on the job. (not as age, emotional stability, etc)

Four styles that match different maturity levels of subordinates are:

- Telling - where subordinate requires specific direction
- Selling - where subordinate is unable but willing

- iii. Participating - where subordinate is able but unwilling
- iv. Delegating - where subordinate is at higher maturity, but willing and accept responsibility.

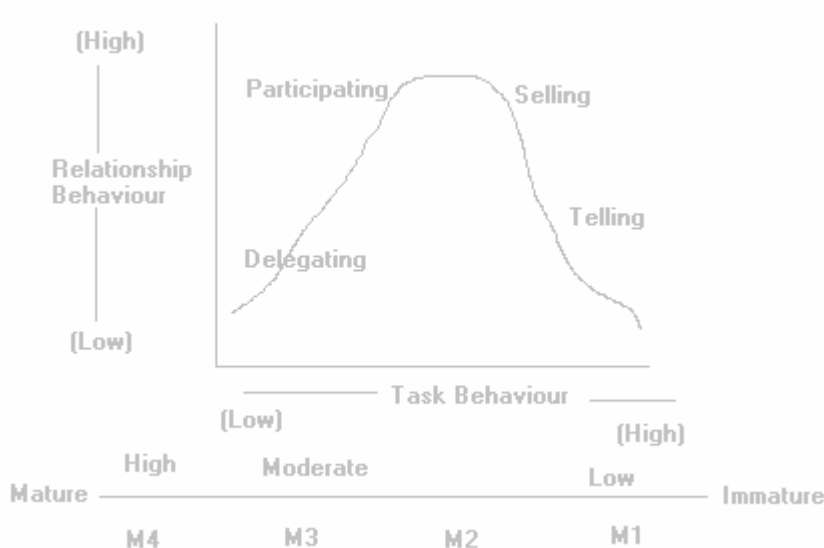
The final component in Hersey and Blanchard's theory is defining four stages of follower readiness or maturity:

M1 People are both unable and unwilling to take responsibility to do something. They are neither competent nor confident.

M2 People are unable but willing to do the necessary jobs tasks. They are motivated but currently lack the appropriate skills.

M3 People are able and unwilling to do what the leader wants

M4 People are both able and willing to do what is asked of them



### Hersey and Blanchard's situational leadership model

Figure integrates various components into the situational leadership model. The appropriate match between situation in terms of maturity or readiness of followers and leadership style as proposed by Hersey and Blanchard is as under:

M1=Telling; M2=Selling; M3=Participating; M4=Delegating. As followers reach high levels of readiness or maturity, the leader responds by not only continuing to decrease control over activities, but also by continuing to decrease relationship behaviour as well. The theory has received little attention from researchers.

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### LEADERSHIP STYLES:

1. **Formal & Informal:** Formal is deliberate & conscious. Informal leader is nothing to do with official relationship.
2. **Autocratic or Authoritarian:** Who centralizes the authority for decision making
  - a) Strict Autocrat - negative motivation approach
  - b) Benevolent Autocrat - positive motivation approach
  - c) Manipulative Autocrat - who makes the subordinates feel that they are participating in decision-making process even though he has already taken the decision.
3. **Participative or Democratic leader:** Decentralizes the decision making process & authority
4. **Laissez Faire or Free- rein Leader:** Entrusts the decision-making authority to his subordinates. (Permissive style of leadership)
5. **Paternalistic leader:** His function is paternal or fatherly.
6. **Rules Centered leader:** Concentrates mostly on rules and regulations, violations, punishment, etc.,

### LEADERSHIP EFFECTIVENESS

There are at least three major views on the determinants of leadership effectiveness. **One view** is that effectiveness is a function of the personal qualities or traits of the individuals who assume the role of leadership. Although possession of these qualities does not guarantee effectiveness, all we can say is that they increase the probability of leadership effectiveness. The **second view** is that leadership effectiveness is not a matter of what leaders are but rather a matter of what they do and how they behave. This is known as the **behavioural** approach. The two most important dimensions of the

behaviour of leaders are **productivity orientation and employee satisfaction orientation**. Leaders who score very high in both the above behavioural dimensions are said to be very effective. The **third view** is that leadership effectiveness is a function of interaction among at least three variables; the leader, the group of followers and the tasks situations. This is known as the situational or contingency approach to leadership as discussed earlier. Here effectiveness is defined in terms of the task performance and satisfaction of the group of followers.

### MEASURES FOR DEVELOPING LEADERSHIP ABILITY OF MANAGERS

The measures for developing leadership ability of managers are:

- a. **Leadership training:** Training programmes are offered to expose managers to several leadership situations and teach them how to tackle them.
- b. **Internal organizational exposure:** Another measure to develop the leadership ability of managers is to expose them within the organization itself to critical situations calling for application of leadership abilities.
- c. **Autonomy and accountability:** Managers may be able to sharpen their leadership abilities under conditions of relative freedom.
- d. **Opportunities for interaction:** Managers should also have opportunities to interact with their subordinates in a more intense and continuous manner.
- e. **Setting challenging but realistic goals:** Managers have to be put on their toes most of the time in their career by setting challenging goals to be met within particular time frames.
- f. **Job rotation:** Managers may also be helped to develop leadership skills by a process of systematic rotation of their jobs.

### Summary

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In this lesson we have understood the term 'leadership' as an interpersonal influence process among a group of people organized formally or informally. Those who assume the leadership role exercise influence, power and sometimes even authority over their followers in those areas in which the groups interests are involved. They protect their followers from outside threats and pressures. They maintain and promote group cohesiveness by providing momentum to continuous group interaction. They commit themselves to be loyal to the group goals and values and even to individual group members. They inspire their followers, sometimes by their own personal behaviour, to scale new heights of excellence. There are several variables, which determine the roles and goals of leaders. The leader's own abilities, traits and skills, the range of styles he adopts in directing the activities of his followers, the type of followers and their expectations, the goal structure of the group, and the all important situational factors all these have an important influence on the effectiveness of the leader. Goal leaders are both task oriented and people oriented. Task orientation involves defining group goals and standards, establishing task structures, assigning role and duties to followers, scheduling work assignments, monitoring, evaluating and correcting performance. People orientation encompasses such behaviour as showing concern and understanding for the feelings, opinion and aspirations of followers, being considerate to their needs and general well being and evincing interest to tackle individual problems. In this lesson we have also discussed a wide range of leadership theories ranging from Great Man theory to Path-goal by categorizing them into personality theories, Behavioural theories, and Situational/Contingency theories. All these theories center around one or more aspects; who the leaders are, what they do? How they behave and what factors in the leadership are deterministic in making the leader successful and effective.

### Terms & concepts for Review:

1. Authority & power
2. Tightly structured and loosely structured
3. Elective and selective
4. Formal and informal

5. Conceptual skills
6. Analytical skills
7. Administration skills
8. Behavioural or interpersonal skills
9. Technical skills
10. Great man theory
11. Trait theory
12. Behavioural theory
13. Ohio state study
14. Michigan study
15. Managerial Grid
16. Likert's management system
17. Situational approach
18. Leadership continuum
19. Contingency theory
20. Path goal theory
21. Group task role
22. Group building / Maintenance role
23. Individual role
24. Qualities of a leader
25. Causes for failure
26. Strict autocrat
27. Benevolent autocrat
28. Manipulative autocrat
29. Participative
30. Laissez Faire or free Rein or Permissive style
31. Rules centred leader
32. Hersey Blanchard's situation theory.

### Self-Assessment Questions

1. What good qualities are necessary for a successful leader?
2. Write short notes on
  - a) Benevolent Autocrat Style
  - b) Laissez Faire or Free Rein Style
  - c) Path-goal theory of Leadership
3. In what circumstances the 'Managerial Grid' is useful as a training device for improving leadership?
4. Analyze Rensis Likert's systems of leadership and comment on his conclusions
5. "Leadership is an influence- interaction process"- Do you agree?
6. What are the traits and functions of a leader?

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7. Define leadership. Explain the measures that can be taken or developing leadership ability of managers.
8. "Rules centred leaders are not so successful when compared to democratic leaders". Do you agree? Why?
9. "Leaders are not only made but also born" – comment.

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### LESSON-3

#### POWER AND POLITICS

##### Power and Politics:

Power is the ability to influence other people and events. It is the leader's stock-in-trade, the way that leaders extend their influence to others. It is somewhat different from authority, because authority is delegated by higher management. Power, on the other hand, is earned and gained by leaders on the basis of their personalities, activities, and the situations in which they operate.

##### Distinction between Power and Authority:

Normally the two terms 'power' and 'authority' are used as synonyms because they both influence the behaviour of people on whom these are exercised. But there is a clear distinction between these two terms. Power is the capacity to command or the ability to exercise influence whereas; authority is the right to command. Power is exercised by a person, whereas authority is derived from one's position in the organizational structure. The differences between authority and power are as follows:

Power	- Capacity to Command
Authority	- Right to Command
Power	- Exercised by a Person
Authority	- Derived from one's position

Sl. No.	Authority	Power
1	Legitimate	No such legitimate
2	One's position	Personal factors
3	Flows downwards	All directions
4	Increases when he moves up	Need not
5	Formal	May not exist between any two persons

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#### TYPES OF POWER

Power develops in a number of ways. There are five bases of power, and each has a unique source.

**Personal power:** Personal power also called referent power, charismatic power, and power of personality-comes from each leader individually; it is the ability of leaders to develop followers from the strength of their own personalities. The leader senses the needs of people and promises success in reaching them. Well-known historical examples are Joan of arc in France, Mahatma Gandhi in India, Franklin D. Roosevelt in the United States.

**Legitimate Power:** Legitimate power, also known as position power and official power, comes from higher authority. It arises from the culture of society by which power is delegated legitimately from higher established authorities to others. People accept this power because they believe it is desirable and necessary to maintain order and discourage anarchy in a society.

**Expert power:** Expert power, also known as the authority of knowledge, comes from specialized learning. It is power that arises from a person's knowledge of that information about a complex situation. It depends on education, training, and experience, and so it is important type of power in our modern technological society.

**Reward power:** Reward power is the capacity to control and administer items that are valued by another. It arises from an individual's ability to give pay raises, recommend someone for promotion or transfer, or even make favourable work assignments. Reward power serves as the basis for behaviour modification programmes.

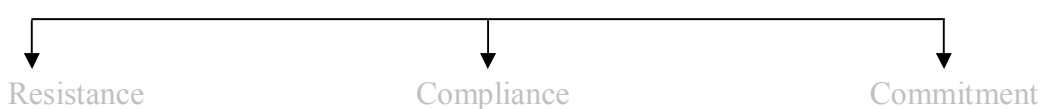
**Coercive power:** Coercive power is the capacity to punish another (or at least to create a perceived threat to do so). Managers with coercive power can threaten an employee's job security, make punitive changes in someone's work schedule, or (at the extreme) administer physical force. Coercive power uses fear as a motivator, which can be



powerful force in inducing action. However, it is likely to have an overall negative impact on the receiver.

When one power base is removed from supervisors, employees may perceive that others bases of influence will decline as well. The use of a power base must fit its organizational context in order to be effective. Employees can respond in one of three ways, as shown in figure. They may resist the leader's initiative, especially if coercive power is used consistently, without apparent cause, or in an arrogant manner. They may comply with the leader's wishes by meeting minimal expectations while withholding extra effort. The most desirable outcome from wielding power is commitment, which is the enthusiastic release of energy and talent to satisfy the leader's requests.

### ***Possible responses to the use of power***



### **BASES OF POWER:**

- The ability to sanction & punish.
- Determined primarily by the organization structure, consequently changes of structure.
- Commitment of others to the power holder.
- Persuading others that proposed changes in strategy are feasible & desirable.
- Increasingly significant as information technology grows in importance.

### **FURTHER (LUKES 1974) SUGGESTS**

- The ability to prevent a decision, or not make one.
- The ability to control the issue on which decisions is to be made.
- The ability to ensure that certain issues are kept off agendas.

### **USES OF POWER & INFLUENCE**

1. Structure the situation.
2. Changing their intentions.

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Macmillan identifies from tactics in relation to these points:

1. Inducement.
2. Coercion.
3. Persuasion.
4. Obligation.

### **ORGANISATIONAL POLITICS:**

Organisational politics refers to between that enhance or protect a person's self-interest. These behaviours may be used to help attain a promotion, self higher management on the merits of a proposal that will expand one's responsibilities and resources, or gain personal visibility. Employees involved in organizational politics usually put their employer to their attempts to gain and use political power. To a large extent, managers agreed that

- Politics is common to most organizations
- Managers must be good at politics to succeed
- Politics becomes more important at higher levels
- Politics can detract from organizational efficiency

### **TACTICS USED TO GAIN POLITICAL POWER**

There are a number of tactics that leaders can use to gain political power; several examples are given in figure. Two of the most popular ones are social exchanges and alliances of various types. Social exchange implies, "If you 'll do something for me, I'll do something for you." It relies on the powerful norm of reciprocity in society. Where two people in a continuing relationship feel a strong obligation to repay their social "debts" to each other. Continuing exchanges over a period of time usually lead to an alliance in which two or more persons join in a longer-term power group to get benefits that they mutually desire. Another popular path toward political power is to become identified with a higher authority and/or a powerful figure in an organization. Another popular way to acquire political power is to give service selectively to your

supporters. Some managers use the more aggressive tactic of applying power plays to grab power from others. A common tactic for increasing power is to join or form interest groups that have a common objective. Power and politics are a basic part of leadership success in an organization.

### EXAMPLES OF TACTICS USED TO GAIN POLITICAL POWER

Tactic used	Example
<b>Social exchange</b>	In a trade-off the chief engineer helps the factory manager get a new machine approved if the manager will support an engineering project
<b>Alliances</b>	The information system manager and the financial vice president join together to work for a new computer system.
<b>Identification with higher authority</b>	The president's personal assistant makes minor decisions for her.
<b>Control of information</b>	The research and development manager controls new product information needed by the marketing manager.
<b>Selective service</b>	The purchasing manager selectively gives faster service to more cooperative associates.
<b>Power and status symbols</b>	The new controller arranges to double the size of the office, decorate lavishly, and employ a personal assistant.
<b>Power plays</b>	Manager A arranges with the vice president to transfer part of manager B's department to A.
<b>Networks</b>	A young manager joins a racquetball club.

### POLITICAL POWER BASES AND TACTICS

#### BASES OF PERSONAL POWER

<b>Expertise</b>	Particularly significant where the skill is in scarce supply. It is possible to use mobility, and the threat of leaving; to gain support for certain changes of strategy- again depended upon the manager's personal importance to the firm.
<b>Assessed stature</b>	A reputation for being a 'winner' or a manager who can obtain results.

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<b>Credibility</b>	Particularly credibility with external power source, such as suppliers or customers.
<b>Control over information</b>	Internal and external sources Information can be used openly and honestly or withheld and used selectively consequently it is crucial to know the reliability of the source.
<b>Group support</b>	In managing and implementing change it is essential to have the support of colleagues and fellow managers
<b>Political access</b>	Being well known around the organization and able to influence key groups of managers.

### POLITICAL TACTICS TO OBTAIN RESULTS

<b>Develop liaisons</b>	As mentioned above, it is important to develop and maintain both formal and informal contacts with other managers, functions, and divisions.
<b>Present a conservative image</b>	It can be disadvantages to be seen as too radical an agent of change
<b>Diffuse opposition</b>	Conflicts need to be brought out into the open and differences of opinion aired rather than kept hidden. Divide and rule can be a useful strategy
<b>Trade-of and compromise</b>	In any proposal or suggestions for change it is important to consider the needs of other people whose support is required.
<b>Strike while the iron is hot</b>	Successful managers should build on success and reputation quickly.
<b>Research</b>	Information is always vital to justify and support proposals
<b>Use a neutral cover</b>	Radical changes, or those which other people might perceive as a threat to them, can sometimes be usefully disguised and initiated as minor changes. This is linked to the next point.
<b>Limit communication</b>	A useful tactic can be to unravel change gradually in order to contain possible opposition
<b>Withdraw strategically</b>	If things are going wrong, and especially if the changes are not crucial, it can be a wise tactic on occasion to withdraw- at least temporarily.

Politically successful managers understand organizational processes and they are sensitive to the needs of others. Effective political action brings about desirable and successful changes in organizations- it is functional. Negative political action is

dysfunctional, and can enable manipulate managers to pursue their personal objectives against the better interests of the organization. The strategic leader needs to be an effective politician.

### Summary

In this lesson we have discussed the power and politics. Power is needed to run an organization. The five bases of power are personal, legitimate, expert, reward, and coercive. Each of these has a different impact on employees, ranging from resistance to commitment. Organizational politics is the use of various behaviours that enhance or protect a person's self-interest. In general, political behaviours in organizations are common, necessary to success, and increasingly important at higher levels. However, overemphasizing politics can also backfire.

### TERMS AND CONCEPTS FOR REVIEW

- Power
- Authority
- Politics
- Personal power
- Legitimate power
- Expert power
- Reward power
- Coercive power
- Resistance
- Compliance
- Commitment
- Bases of power
- Uses of power
- Tactics of power
- Organizational politics
- Political power bases and tactics

### SELF-ASSESSMENT QUESTIONS

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1. Examine the various behaviours that are common in organizational politics. Which of these could be used effectively in the classroom? Why not the others?
2. Review the definitions of organizational politics. Can an organization be totally free of political behaviours? What would it be like? How could you make it happen?
3. Think of an organization you once knew. What types of power were used? How did people react? What changes would you recommend?
4. Review and explain the ideal of “norm of reciprocity”. Explain how you have seen it used interpersonal relationships. How could you make use it in the future?

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## LESSON 4

### ORGANISATIONAL STRUCTURE, CLIMATE AND CULTURE

#### LESSON OUTLINE

- Concept of Organisational Structure
- Factors determining Organisational Structure
- Functional areas
- Bases or forms of departmentalisation
- Horizontal & Vertical dimension of Organisational Structure
- Traditional, Modern, Commercial & Non Commercial Organisational Structure
- Major Dimensions of Organisational Climate
- Meaning & Characteristics of Organisational Culture

#### LEARNING OBJECTIVES

After reading this lesson you should be able to

- Understand the concept of Organisational Structure
- Identity the factors determining Organisational Structure
- Classify the functional areas and bases of departmentalisation
- Recall the major dimensions of Organisational Climate
- Understand the meaning & characteristics of Organisational Culture.

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## LESSON 4

### ORGANISATIONAL STRUCTURE, CLIMATE AND CULTURE

Organisational structure provides the framework for managers and others for performing the various functions expected of them and for facilitating the work flow in the organisation.

#### ORGANISATIONAL STRUCTURE

The process of organising results in the creation of a formal organisational structure which is defined as a system of patterned and inter-related task units and authority positions. It is called formal structure since it is deliberately and purposefully planned and designed by management. The formal organisational structure has two 'dimensions'. They are: horizontal dimension and vertical dimension.

The horizontal and vertical dimensions of the organisational structure i.e. the activity structure and authority structures are tied together. The managerial positions are not created in a vacuum; they are created around the sub-divided task units.

#### Major factors determining organisational structure

- (a) Goals
- (b) Technology
- (c) External environment
- (d) People

#### FUNCTIONAL AREAS

A business organisation has to perform a number of activities in order to run itself. We have seen in the functional form of departmentalisation that an organisation groups function or activities into primary departments. The application of functional form of departmentalisation means grouping activities mainly into departments of production, marketing, human resource development and finance.

#### THE HORIZONTAL DIMENSION OF ORGANISATIONAL STRUCTURE

The horizontal dimension consists of the various activity or work units created through the process of departmentalisation and is called the activity structure. In a manufacturing enterprise, the activity structure consists of the various departments like purchasing, production, R & D, finance, accounts, marketing and so on.

**Departmentalisation:** The concept of departmentalisation, (or departmentation as it is often called) is one of the important steps in the design of formal structure of an organisation. A systematic sub-division of activities into individual jobs, the grouping of jobs into work-units and the integration of units into departments. The departments so created have lateral relations to each other. Thus departmentalisation creates the lateral or horizontal activity structure of the organisation.

**Bases or forms of departmentalisation:** There are several alternative ways in which organisational activities are grouped into work units. These are called the bases or forms of departmentalisation. The major bases or forms are: Function, process or equipment, product, customer and geographical area.

#### VERTICAL DIMENSION OF ORGANISATIONAL STRUCTURE

**The Concept of Authority:** In every day life we come across the notion of authority. Authority is the formal right vested in a managerial position to undertake certain managerial tasks, to make decisions, to give directions to subordinates and to influence events for achieving certain goals.

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**Authority, responsibility and accountability:** The concepts of authority, responsibility and accountability have particular relevance for understanding the process of delegation of authority.

The concept of responsibility has two connotations. In one sense it is the set of tasks or duties assigned to a person. In another sense, it is corollary of authority, and is the obligation of a person to whom authority is delegated, to act in response to an order issued by his superior.

Accountability is often used as a synonym to responsibility. In other words, accountability and responsibility have the same meaning. Some others, however, distinguish between accountability and responsibility by defining accountability as personal answerability for decisions, actions and results on the part of a subordinate to his superior.

**Concept of management hierarchy:** The vertical axis of the organisational structure consists of the hierarchy of management or the network of managerial authority levels. The hierarchy of management is established through the process of vertical differentiation and integration of authority.

#### TRADITIONAL ORGANISATIONAL STRUCTURES

Management theorists classify traditional organisational structures into three types: Line Structure, Line and Staff Structure and Functional Structure. **Line structure:** An organisational structure which is designed around line activities and line authority only is called a line structure.

**Line and staff structure:** This structure represents a modification of and improvement over the basic line structure. In this, the basic line activity units, line managerial positions and the flow of line authority along the vertical chain of command are left undistributed.

**Functional structure:** The functional organisational structure is based on line authority, staff authority and the notion of functional authority.

## MODERN ORGANISATIONAL STRUCTURES

Traditional structures are also regarded as some what out of step with contemporary requirements and realities of rapid change, uncertainty and complexity of environment. Attempts are hence made to modify the traditional structure so as to evolve refined forms of structure. These are variously described as **systems structure, project structure, programme structure, matrix structure, task force structure and free form structure**. These modern structures are regarded as more organic, adaptive, and flexible and are suitable for complex organisations which employ highly sophisticated technology and which encounter a very diverse, volatile environment.

## COMMERCIAL AND NON-COMMERCIAL ORGANISATION

Organisation can be classified as commercial or non-commercial on the basis of the interest they have. A commercial organisation has profit as its main aim. We can find many organisations around us, which do not have any commercial objective of making profits. Their genesis may be so for social, charitable, or educational purposes. A non-commercial organisation comes to existence to meet the needs not met by business enterprises.

## ORGANISATIONAL CLIMATE

The term, 'Organisational climate' is defined as a relatively enduring quality of the internal environment of an organisation as perceived and experienced by its members, which can be described in terms of specific dimensions or characteristics and which influences the patterns of behaviour and work performance on members. It is the totality of interacting and inter-related internal dimensions or characteristics which significantly influence the motivation of members. Organisation climate evolves over a fairly long period of time and is relatively stable. Since the dimensions of climate are internal, they can be measured, controlled and changed by the organisation, if it so decides.

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Organisational climate is the major frame of reference for the member's interpretation of organisational decisions and actions as also their own attitudes, behaviour and performance.

The major dimensions or characteristics of organisational climate are listed as follows:

- 1) Organisational values, goals and priorities which are pursued in practice as against those which are professed.
- 2) Managerial value systems and life styles.
- 3) Competence, character, commitment and dynamism of management.
- 4) The complexion of organisational policies and practices and the consistency with which they are followed.
- 5) The power structure-the extent of concentration or dispersal of authority, the extent to which and the manner in which formal authority is exercised, the extent of status disparities, social distance between managers at various levels and between managers and non-managers and so on.
- 6) General organisational structure-hierarchy, rigidity vs. flexibility clarity of the structure communication and control systems, superior-subordinate relations, informal social relationships, etc.
- 7) Nature of jobs – degree of skill required, relation between effort and productivity, variety in the tasks, perceived importance of the job, rewards associated with the job, relation with other jobs, security and so on.
- 8) Degree of freedom and control – requirements of conformity and compliance to organisational norms and the extent to which behaviour of employees is structured.
- 9) Supervisory style – attitudes and behaviour of supervisors and managers towards their subordinates and towards performance requirements.
- 10) Rewards structure – reward levels and inter-relations, equity in reward structures, monetary and non-monetary rewards.
- 11) Organisational approach to conflict and dissent, amicable resolution or suppression of conflict.



12) The physical working conditions in the organisation.

In general, organisational climate provides certain stimuli, offers certain opportunities and raises certain expectations among its members; at the same time, it also creates certain constraints, threats, problems and frustrations.

Organisational climate factors influence the perceived ability of the individual employee, which in turn has a decisive effect on his motivation. Perceived ability is influenced by the nature and clarity of the job, the scope of responsibility, degree of freedom, supervisory support and training, safety and other physical working conditions, previous experience and so on.

### ORGANIZATIONAL CULTURE

**Organizational culture** is the set of assumptions, beliefs, values and norms that is shared among its members. This culture may be consciously created by its key members, or it may have simply evolved across time. It represents a key element of the work environment in which employees perform their jobs. A culture may exist across an entire organization, or it may refer to the environment within a single division, branch, plant, or department. This idea of organizational culture is somewhat intangible, for we cannot see it or touch it, but it is present and pervasive. Like the air in a room, it surrounds and affects everything that happens in an organization. Because it is a dynamic systems concept, culture is also affected by almost everything that occurs within an organization.

They give an organizational identity to employees – a defining vision of what the organization represents. They are also an important source of stability and continuity to the organization, which provides a sense of security to its members.

### Characteristics of Cultures

Each has its own history, patterns of communication, systems and procedures, mission statements and visions, stories and myths which, in their totality, constitute its

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distinctive culture. Cultures are also relatively stable in nature. Most organizational cultures have historically been rather implicit rather than explicit. A final defining characteristic of most culture is that they are seen as symbolic representations of underlying beliefs and values.

### Measuring Organizational Culture

Systematic measurement and comparison of cultures is difficult at best. Most early attempts by researchers relied on examination of stories, symbols, rituals, and ceremonies to obtain clues. Others have used interviews and open-ended questionnaires in an attempt to assess employee values and beliefs. In other cases, examination of corporate philosophy statements has provided insight into the espoused cultures (the beliefs and values that the organization states publicly). Another approach is to survey employees directly and seek their perceptions of the organization's culture. One of the more interesting methods is to become a member of the organization and engage in participant observation.

### Characteristics of organizational cultures

- Distinctive
- Stable
- Implicit
- Symbolic
- Integrated
- Accepted
- A reflection of top management
- Of varying strengths

### Communicating Culture

If organizations are to consciously create and manage their cultures, they must be able to communicate them to employees, especially the newly hired ones. Individuals are generally more willing to adapt when they want to please others, gain approval, and learn about their new work environment. These cultural communication acts may be



lumped under the umbrella of organizational **socialization**, which is the continuous process of transmitting key elements of an organization's culture to its employees.

**Individualization** occurs when employees successfully exert influence on the social system around them at work by challenging the culture or deviating from it.

### Summary

In this lesson we have understood the organisational structure, climate and culture. The formal organisation has two dimensions-horizontal and vertical. The former is called activity structure in which the activities or tasks of the organisation are divided, sub-divided and integrated by means of departmentalisation. There are several bases of departmentalisation-functional, geographical, product, market and the like.

The vertical dimension of the organisation is the authority structure which is referred to as hierarchy. It shows how authority is parcelled out from the top to the base of the organisation among several managerial positions and how authority responsibility relations and roles designed among these positions. Two broad categories of organisation are traditional structures and modern structures. The latter depart from the former in some respects so as to neutralise some of their deficiencies.

Organisational climate evolves over a fairly long period of time and is relatively stable. Organizational cultures reflect the assumptions and values that guide a firm. They are intangible but powerful influences on employee behavior. Participants learn about their organization's culture through the process of socialization and influence it through individualization.

### Terms and Concepts for Review

- Organisational structure
- Major factors
- Functional Areas
- Horizontal & Vertical Dimensions

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- Bases of departmentalisation
- Authority, Responsibility & Accountability
- Traditional & Modern Organisational Structure
- Commercial & Non-Commercial organisation structure
- Organisational climate
- Characteristics of organisational climate
- Organisational culture
- Characteristics of organisational culture
- Measuring organisational structure
- Communicating organisational structure

### Self Assessment Questions

1. Describe the organisational culture that seems to exist in your organisation. What are some of the implicit or explicit norms, values and assumptions?
2. Discuss the bases or forms of departmentalisation in an organisation.
3. Explain various characteristics of Organisational Climate.
4. Distinguish between
  - a) Horizontal & Vertical dimension of organisational structure
  - b) Commercial & Non-Commercial dimension of organisational structure
  - c) Traditional & Modern dimension of organisational structure.
5. What are the major dimensions of organisational structure?
6. Describe the factors determining organisational structure.

## LESSON 5

ORGANISATIONAL CHANGE

## LESSON OUTLINE

- Nature, costs & benefits of Organisational Change
- Resistance to change
- Framework for change
- Role of Transformational leadership in change
- Practices to build support for change

## LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- Understand the nature, cost and benefits of Organisational Change

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- Find the causes for resistance to change
- Recognise the role of Transformational leadership in change
- Recollect the practices to build support for Organisational Change

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## LESSON 5

### ORGANISATIONAL CHANGE

Organizations are encountering a wide variety of dramatic changes. Some face greater federal regulation, while others experienced deregulation. Some are more splintered, while others consolidate; some find their markets shrinking, while others find themselves thrown headlong into a global marketplace. Many organizations have experienced mergers or hostile takeovers, producing wrenching psychological and economic effects on their employees. The survival issue is not whether to change, but when and how to make it occur most successfully.

Human beings are certainly familiar with change, and often prove themselves quite adaptive to it. Why, then, do they often resist change in their work environment? This question has troubled managers since the beginning of the industrial revolution.

#### WORK CHANGE

##### The Nature of Work Change

Work change is any alteration that occurs in the work environment. A safe generalization is that the whole organization tends to be affected by change in any part of it. Change is a human as well as a technical problem. Organizations, too, tend to achieve an equilibrium in their social structure. This means that people develop an established set of relations with their environment. This disequilibrium highlights a dilemma for managers. Here, their role is to be proactive-anticipating events, initiating change, and taking control of their destinies. On the other hand, part of their role is to restore and maintain the group equilibrium and personal adjustment that change upsets. In this role they are more reactive-responding to events, adapting to change, and tempering the consequences of change.

#### Responses to change

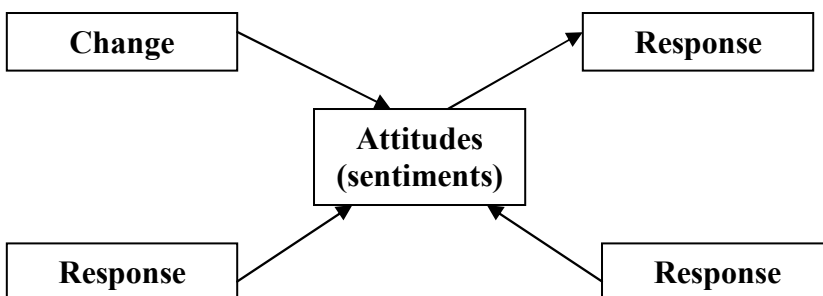
Work change is further complicated by the fact that it does not produce a direct adjustment as in the case of air molecules. Instead, it operates through each employee's attitudes to produce a response that is conditioned by feelings toward the change.

#### CHART: A MODEL OF HOW INDIVIDUAL ATTITUDES AFFECT RESPONSE TO CHANGE

Each change is interpreted by individuals according to their attitudes. The way that people feel about a change then determines how they will respond to it. They are neither logical nor illogical but entirely apart from logic. They are enological.

#### Chart

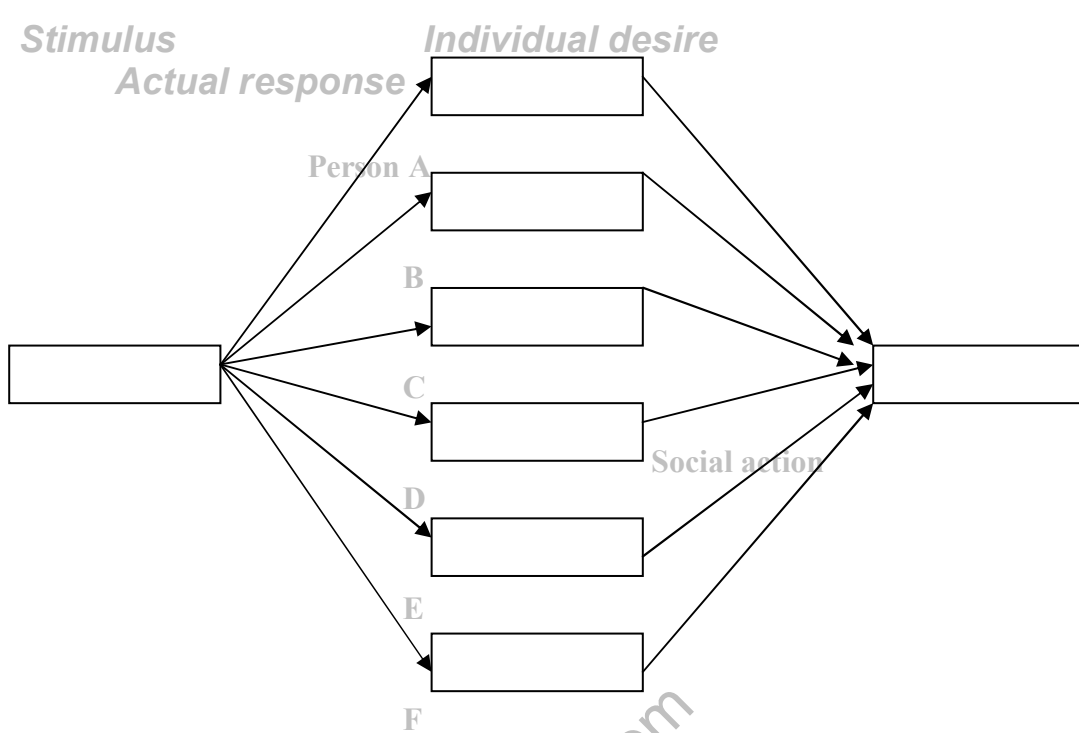
## Management Processes & Behaviour



**HAWTHORNE EFFECT:** The Hawthorne effect means that the mere observation of a group tends to change it. When people are observed, they act differently. These changes usually are unintended and not recognized.

**GROUP RESPONSE TO CHANGE:** Though people individually interpret change, they often show their attachment to the group by joining with it in some uniform response to the change.

## Management Processes & Behaviour



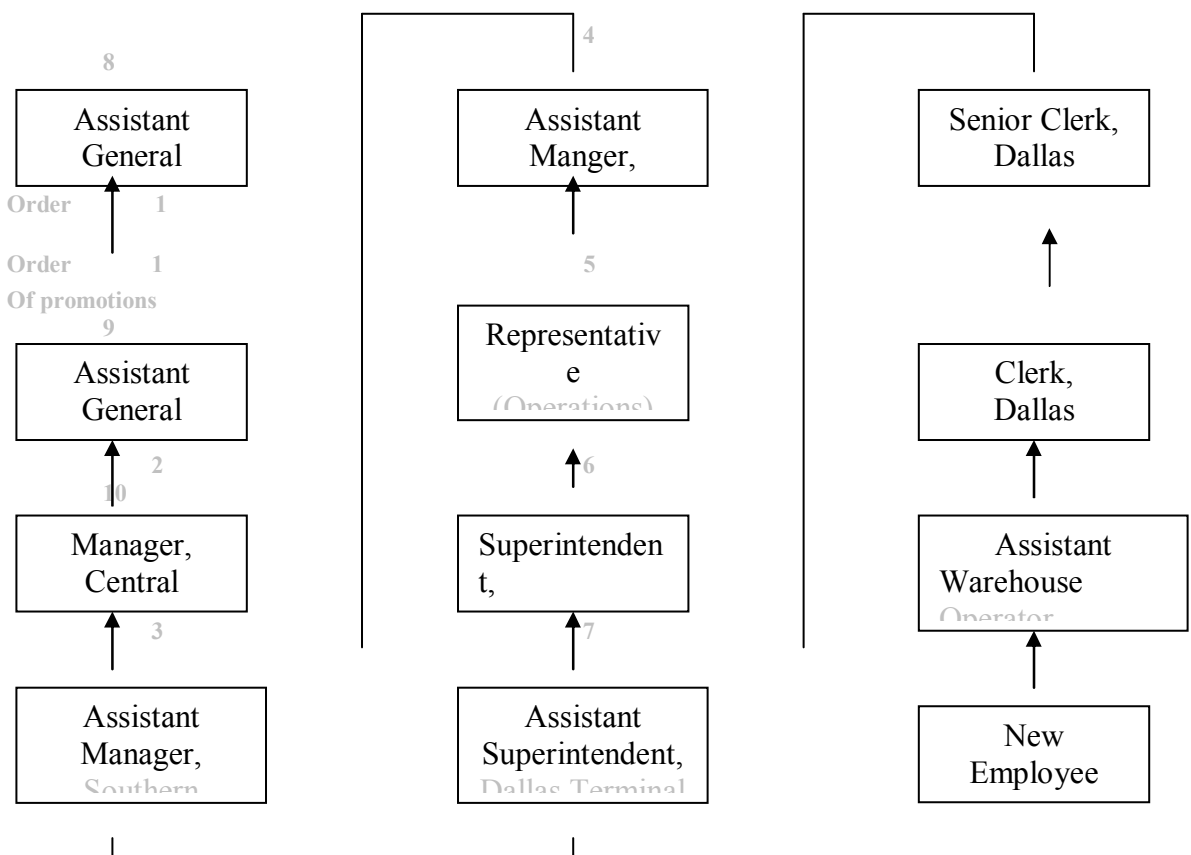
**FIGURE: UNIFIED SOCIAL RESPONSE TO CHANGE**

**HOMEOSTASIS:** The self-correcting characteristic of organizations is called **homeostasis**; that is, people act to establish a steady state of need fulfillment and to protect themselves from disturbance of that balance.

**Costs and Benefits:** All changes are likely to have some costs. There also may be the cost of new equipment or relocation of old equipment. These costs are not merely economic; they also are psychological and social. Because of the costs associated with change, proposals for change are not always desirable. Almost any change, for example, involves some psychological loss because of the strain

that it imposes on people as they try to adjust. Psychological costs also are called **psychic costs** because they affect a person's inner self (psyche).

**FIGURE: Change of eleven promotions resulting from promotion of a high level manager**



**Implementation of Change Requires:**

1. A perceived need for change
2. The necessary resource

3. Commitment

**Forces for change:**

1. Technical obsolescence & technical improvements
2. Political & Social events
3. The tendency for large organisations. & markets to become increasingly global
4. Increase in the size, complexity & Specialisation of organisations
5. The greater strategic awareness & skills of managers & employees.

Level of change		
Need	Level of change	
Approaches/Tactics		
New mission, different Organisational Ways of doing things	Values, culture, styles of management	development
New Corporate Perspective/Strategy design	<div>Objectives/Corporate Strategy</div> <div>Planning</div> <div>Organisation Structure</div>	<div>Strategy</div> <div></div> <div>New orgn.</div>
Improved competitive Empowerment, Effectiveness (existing mgt., Job Pds. & Services) policies.	<div>Competitive Strategies, MBO,</div> <div>Systems &amp; mgt. roles</div>	<div></div> <div>performance description,</div>
Improved efficiencies Study; enrichment	<div>Functional Strategies;</div> <div>Orgn. of Tasks</div>	<div></div> <div>Method Job</div>

The current dynamics of change:

1. The general dynamics & uncertainty of world economies.
2. Time horizons, PLC, the development time for new products must also be cut.
3. Organisation structure must be designed to enable decisions to be made quickly.
4. Quality, design & service are essential for competitive advantage.

Types of change:

1. Technology – production process
2. The product/service – The output of the business;
3. Administrative change – structure, policies, budgets; reward systems.
4. People – attitudes, expectations, behaviour.

RESISTANCE OF CHANGE

Nature and effects

**Resistance to change** consists of any employee behaviors designed to discredit, delay, or prevent the implementation of a work change. All types of employees tend to resist change because of the psychic costs that accompany it. Managers as well as workers resist it. Certainly not all changes are resisted, as some are actively sought by employees. Insecurity and change are conditions that illustrate how a **chain-reaction effect** may develop in organizational behavior.

Causes for Resistance to change:

1. Change as a threat to their security
2. Resistance to ‘sideways change’- unless the people affected are fully aware of the reasons & implications.
3. Change may require careful implementation of policies, behaviour patterns.
4. Fear of the unknown & to feel comfortable with situations, policies, procedures they know.
5. The organisation. itself or particular mgrs. may resist external pressures if the change involves considerable expenses, investment in new equipment & the associated risks.
6. Resistance is likely to be forthcoming where there are perceived flaws or weakness in the proposal.

**Reasons for Resistance:** Employees may resist changes for two broad reasons. First, they may not feel comfortable with the nature of the change itself. A second reason for resistance stems from the method by which change is introduced.

### Types of Resistance

**LOGICAL RESISTANCE:** This is based on disagreement with the facts, rational reasoning, logic, and science.

**PSYCHOLOGICAL RESISTANCE:** This is typically based on emotions, sentiments, and attitudes.

**SOCIOLOGICAL RESISTANCE:** Sociological resistance also is “logical,” when it is seen as a product of a challenge to group interests, norms, and values.

### TYPES OF RESISTANCE TO CHANGE AMONG EMPLOYEES

#### Logical, rational objections

- Time required to adjust
- Extra effort to relearn
- Possibility of less desirable conditions, such as skill downgrading
- Economic costs of change
- Questioned technical feasibility of change

#### Psychological, emotional attitudes

- Fear of the unknown
- Low tolerance of change
- Dislike of management or other change agent
- Lack of trust in others
- Need for security; desire for status quo

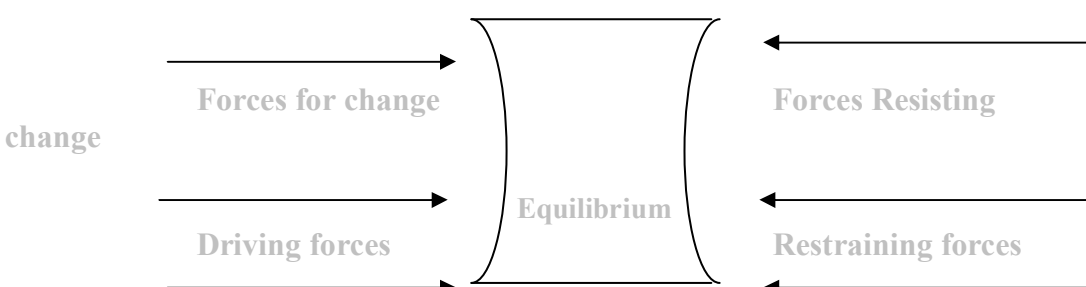
#### Sociological factors; group interests

- Political coalitions
- Opposing group values
- Parochial, narrow outlook
- Vested interests
- Desire to retain existing friendships

#### Six ways of Overcoming Resistance to change:

1. Education & Communication
2. Participation & Involvement
3. Facilitation & Support
4. Negotiation & Agreement
5. Manipulation & Cooperation
6. Explicit & Implicit coercion

### Force field Analysis (Lewin)



**Margerison and Smith (1989) suggest four key features for management of change:**

1. Dissatisfaction – with the present strategies & styles
2. Vision – of the better alternative
3. A strategy- for implementing the change & attaining the desired state.
4. Resistance – to the proposals at some stage.

### STRUCTURAL FOCUS OF CHANGE MANAGEMENT

**Empowerment & Development**

<b>-Effectiveness oriented</b> <b>- Focus on Problem Solving Approach</b>  <b>CHANGE ACCEPTED</b>	<b>The learning organization</b>  <b>Innovative; Intrapreneurial</b>  <b>risk taking</b>
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**CULTURE & VALUES**

<b>Concentration on resource efficiency</b>  <b>Consistant &amp; Systematic</b>	<b>Supportive organisation</b>  <b>Cross functional co-operation</b>  <b>RESPONSIVE TO CHANGE</b>
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### **Orientation towards**

Efficiency & results

**Integration**                      **Individuals & Tasks**                      **Teams**                      **&**

**Possible Benefits of Resistance:** Resistance is not all bad. Resistance may encourage management to reexamine its change proposals, thus making sure they are appropriate.

### **IMPLEMENTING CHANGE SUCCESSFULLY**

Some changes originate within the organization, but many come from the external environment. Government passes laws, and the organization must comply. New developments in technology arise, and products must incorporate the changes. Competitors introduce new services, and the firm must respond. Then there are pressures from customers, labour union, communities, and others who initiate changes. Although stable environments mean less change, dynamic environments are becoming the norm, and they require more change.

### **Transformational Leadership and Change**

**Transformational Leaders** are instrumental in this process. They are managers who initiate bold strategic changes to position the organization for its future.

**CREATING VISION:** Transformational leaders create and communicate a vision for the organization.

### **COMMUNICATING CHARISMA**

**Charisma** is a leadership characteristic that can help influence employees to take early and sustained action.

**STIMULATING LEARNING:** Transformational leaders recognize that the legacy they leave behind is not simply the change itself but an organization that will continue to change. This process is called **double-loop learning**.

### **Three Stages in change**

Behavioral awareness in managing change is aided by viewing change as a three-step process:

- Unfreezing
- Changing
- Refreezing

**Unfreezing** means that old ideas and practices need to be cast aside so that new ones can be learned.

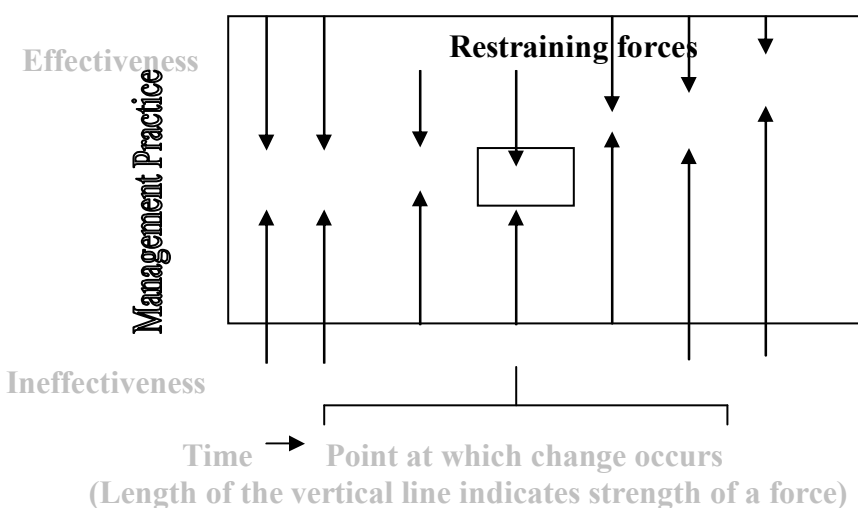
**Changing** is the step in which the new ideas and practices are learned.

**Refreezing** means that what has been learned is integrated into actual practice.

### **Reaching a New Equilibrium**

The system is in a state of relative equilibrium and so current practices will continue in a steady way until change is introduced. Change is introduced within a group by a variety of methods, as shown in Figure. Supporting forces may be added or strengthened, while restraining forces may be weakened, removed, or converted to supporting ones.

**Figure:** A model of the change process



**The Organizational Learning Curve for Change:** It is the period of adaptation that follows change, and it typically means there will be a temporary decline in effectiveness before a group reaches a new equilibrium.

**Building Support for Change:** Assuming that management is following the model of the change process in Figure, then forces of support need to built before, during, and after a change.

**USE OF GROUP FORCES:** Effective change focuses on the group along with individuals.

**PROVIDING A RATIONALE FOR CHANGE:** Capable leadership reinforces a climate of psychological support for change.

### FIGURE

**General approaches for changing an equilibrium**

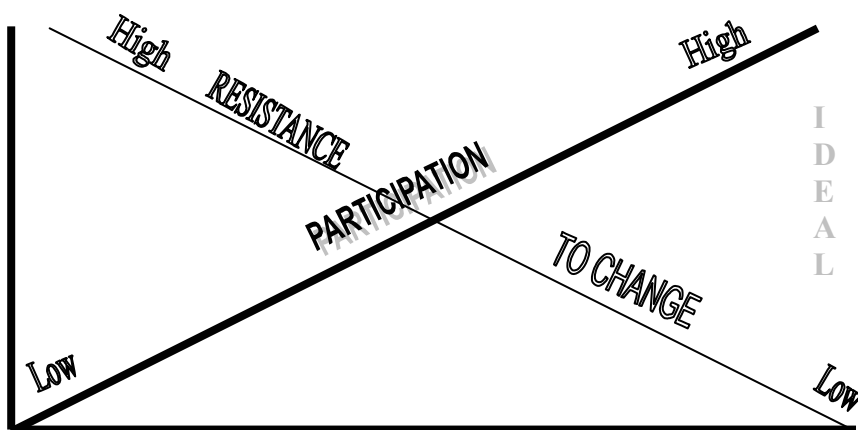
1. Adding new supporting forces
2. Removing restraining forces
3. Increasing the strength of a supporting force
4. Decreasing the strength of a restraining force
5. Converting a restraining force into a supporting force

**PARTICIPATION:** A fundamental way to build support for change is through participation.

**SHARED REWARDS:** Another way to build employee support for change is to be sure that there are enough rewards for employees in the change situation.

**EMPLOYEE SECURITY:** Along with shared rewards, existing employee benefits need to be protected.

### FIGURE: A model of participation and resistance to change



**COMMUNICATION:** Communication is essential in gaining support for change.

**STIMULATING EMPLOYEE READINESS:** Closely related to communication is the idea of helping employees become aware of the need for a change. This approach builds on the premise that change is more likely to be accepted if the people affected by it recognize a need for it before it occurs.

**WORKING WITH UNIONS:** Unions sometimes support management in encouraging workers to accept change.

**WORKING WITH THE TOTAL SYSTEM:** Resistance to change can be reduced by helping employees to recognize the need for each change and to

## Management Processes &amp; Behaviour

participate in it and gain from it. Five management guidelines for responsible change may be summed up as follows:

1. Make only necessary and useful change. Avoid unnecessary change.
2. Change by evolution, not revolution (that is, gradually, not dramatically).
3. Recognize the possible effects of change, and introduce it with adequate attention to human needs.
4. Share the benefits of change with employees
5. Diagnose the problems remaining after a change occurs, and treat them.

**SUMMARY**

In this lesson we have understood the concept of organisational change. Change is everything, and its pace is increasing. The work environment is filled with change that, while positive in intent, upsets the social system and requires employees to adjust. Resistance to change can focus on the change itself or on the way it was introduced. Further, it can be logical, psychological, or sociological.

Change has costs as well as benefits, and both must be considered to determine net effects. Employees tend to resist change because of its costs, including its psychic costs. Management reduces resistance by influencing the supporting and restraining forces for change. Managers are encouraged to apply a systematic change procedure spanning unfreezing, change, and refreezing activities. Since there is an organizational learning curve for change, time is required for the potential benefits of change to occur.

Transformational leadership can be instrumental in bringing about effective changes. Leaders need to create and share a vision, to inspire followers through their charisma, and to encourage them to become double-loop learners so that future changes will be even more successful. A wide range of activities

## Management Processes &amp; Behaviour

to support change can be used, such as participation, shared rewards, and adequate communication.

**Terms & Concept for Review**

- Organisational change
- Charisma
- Double loop & single loop learning
- Homeostasis
- Hawthorne effect
- Pro active and reactive roles
- Psychic costs
- Resistance to change, Logical, Psychological & Sociological
- Transformational leaders
- Reaching a New Equilibrium
- Stages in change
- Building support for change

**Self Assessment Questions**

1. "Change is basically positive." Discuss the pros and cons of this statement.
2. Resistance to change is often viewed negatively. Discuss some possible benefits of resistance to change in an organization.
3. Considering that change even further, was there an organizational learning curve for it? Discuss its length shape, and some of the problems that developed.
4. Continuing the analysis of this change, how did management alter the restraining and supporting forces for it? Discuss.
5. Think of an organizational change that you have experienced. Was there resistance to the change? Discuss. What could have been done to prevent or diminish it?

**LESSON 6****ORGANISATIONAL DEVELOPMENT (OD)****LESSON OUTLINE**

- Meaning & Characteristics of OD
- Process of OD
- Assumptions & Skills of OD specialists
- OD approaches
- Experiments Learning methods
- OD interview strategies
- Behaviour focused programme
- Structure focused programme
- Team work & team building
- Benefits & limitations of OD

**LEARNING OBJECTIVES**

After reading this lesson you should be able to

- Understand the meaning & characteristics of OD
- List out the objectives of OD
- Recognize the process of OD
- List out the assumptions & skills of OD specialists
- Recollect the OD intervention approaches
- Realize the importance of team work & team building
- Recollect the benefits & limitations of OD

## LESSON 6

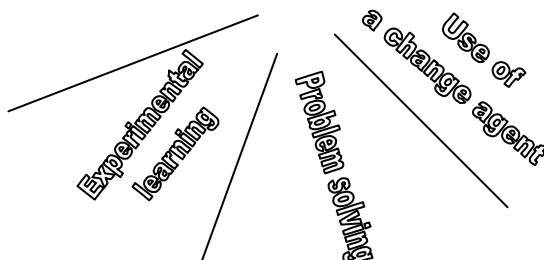
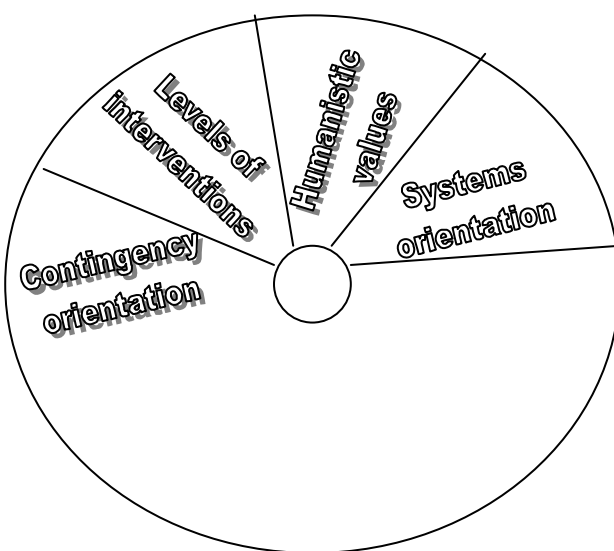
### ORGANISATIONAL DEVELOPMENT (OD)

#### Understanding organization development

In the 1950s and 1960s a new, integrated approach oriented known as organizational development (OD). Organization development is the systematic application of behavioural science knowledge at various levels (group, intergroup, and total organization) to bring about planned change. Its objectives include a higher quality of worklife, productivity, adaptability, and effectiveness. It seeks to change beliefs, attitudes, values, strategies, structures, and practices so that the organization can better adapt to competitive actions, technological advances, and the fast pace of other changes in the environment. There are three main reasons why OD was necessary. First, conventional training in the past often failed to carry over to the job. Second cause was the piecemeal approach to training taken by many organizations. A third cause was, and still is, the dramatic pace of change itself, which requires organizations to be extremely flexible in order to survive and prosper.

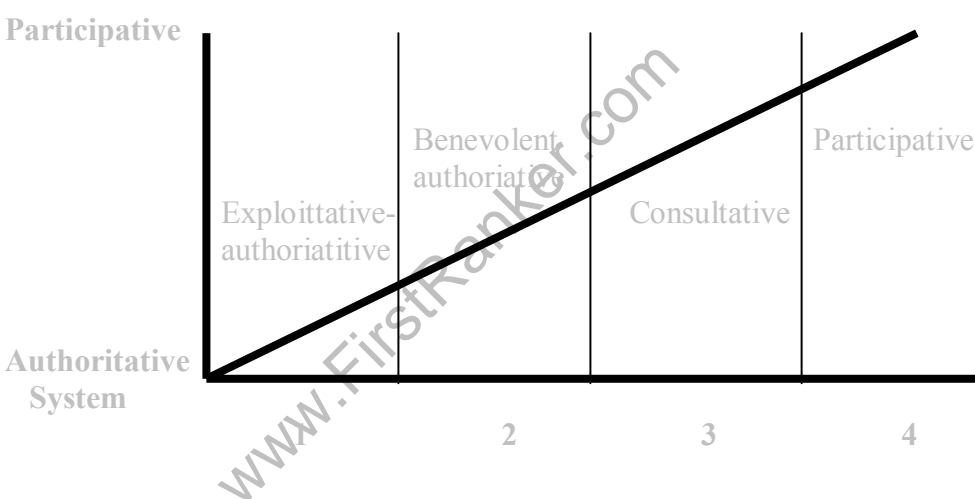
#### Characteristics of organizational development:

A number of characteristics are implied in the definition of OD.



**Systems orientation:** Change is so abundant in modern society that organizations need all their parts working together in order to solve the problems and capitalize on the opportunities- that are brought by change. An example of an OD framework using four systems of management was developed by Renis Likert. In order to analyze the present system and move toward a better one, the Likert program uses a model of an organization with three types of variables. They are casual, intervening, and end-result variables.

Systems 1 through 4 in relation to participation



**Humanistic values:** OD programs typically are based on humanistic values, which are positive about the potential and desire for growth among employees.

#### Variables in Likert’s organization development approach

Casual variables Organisation structure Controls Policies Leadership behaviour	Intervening variables Attitudes Motivation Perceptions	End result variables Improved productivity Lower costs Higher earnings
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**Use of a change agent:** OD programs generally use one or more change agents, whose role is to stimulate, facilitate, and coordinate change.

**Problem solving:** OD emphasizes the process of problem solving. It trains participants learn on the job.

**Experimental learning:** Experimental learning means the participants learn by experiencing in the training environment the kinds of human problems they face on the job.

**Interventions of many levels:** The general goal of organization development is to build effective organizations-one that will continue to learn, adapt, and improve.

**Contingency approach:** Organization development is usually described as contingency –oriented.

#### **THE OBJECTIVES OF ORGANISATIONAL DEVELOPMENT:**

The objectives of organizational development are indicated as below:

- a) To increase the level of personal enthusiasm, satisfaction, and support among organizational members.
- b) To increase the openness of communication in all directions
- c) To develop more effective workgroups
- d) To improve interpersonal competence for problem solving and conflict resolution in a synergetic manner to reinforce positive values and beliefs as also feelings and emotions of people.
- e) To improve overall organizational climate

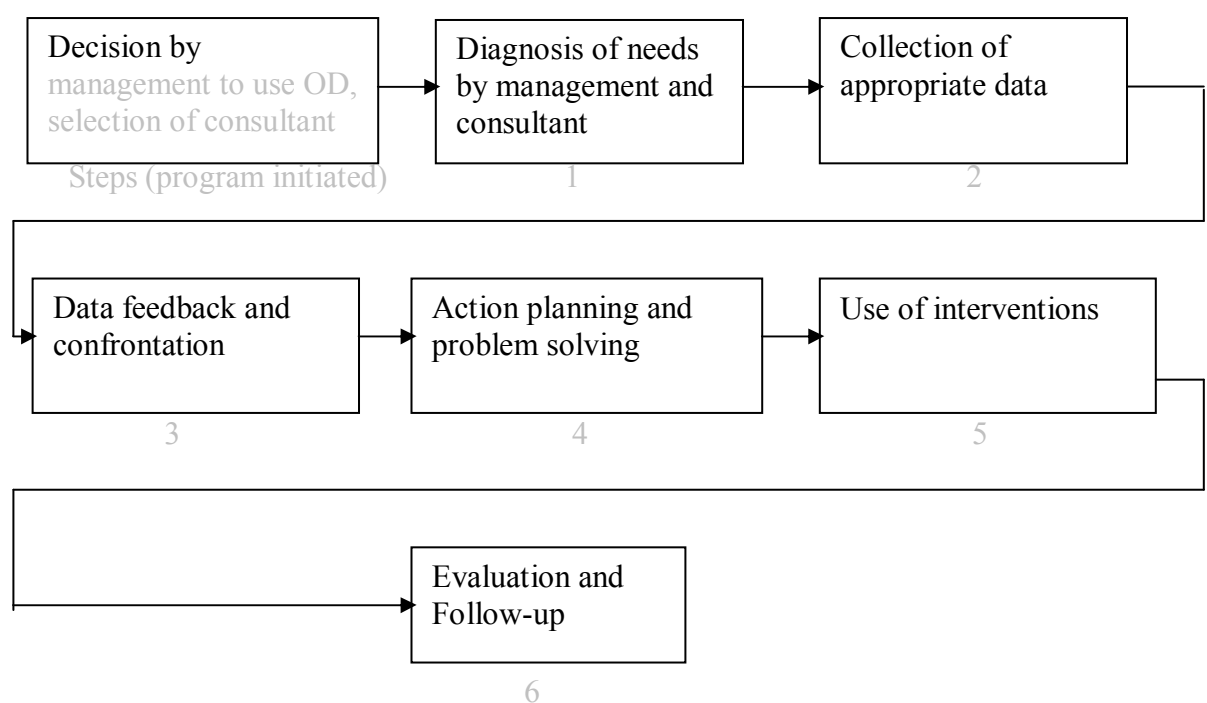
#### **THE ORGANISATION DEELOPMENT PROCESS:**

A typical complete program includes most of the following steps:

- Initial diagnosis
- Data collection

- Data feedback and confrontation
- Action planning and problem solving
- Use of interventions
- Evaluation and follow-up

### Steps in the organization development process



### ASSUMPTIONS UNDERLYING ORGANISATION DEVELOPMENT

A wide range of assumptions can be made, but certain ones are relatively common at the individual, group, and organizational level.

#### SKILLS USEFUL IN ORGANISATION DEVELOPMENT:

A highly skilled OD practitioner needs to develop a broad range of skills useful in guiding organizational change efforts, including consultation skills (diagnosis, contracting, designing change), interpersonal skills (such as trust building, coaching and listening) research skills (planning and conducting a study and

evaluating results), and presentational skills (public speaking and report preparation). Among the skills, two additional and closely related ones stand out as critical to success-process consultation and feedback.

**Process consultation:** Process consultation is a set of activities that help others focus on what is currently happening around them.

#### Common organization development assumptions

##### Individual

- People want to grow and mature
- Employees have much offer (eg.energy and creativity) that is not now being used at work
- Most employees desire the opportunity to contribute (they desire, seek, and appreciate empowerment)

##### Groups

- Groups and teams are critical to organizational success.
- Groups have powerful influences on individual behaviour
- The complex roles to be played in groups require skill development

##### Organization

- Excessive controls, policies, and rules are detrimental
- Conflict can be functional if properly channeled
- Individual and organizational goals can be compatible.

#### Feedback

OD relies heavily on feedback to participants so that they have useful data on which to base decisions. Feedback encourages them to understand how they are seen by others and to take self-correcting action.

#### OD APPROACHES TO CHANGE

OD programs rely heavily on experimental learning, and the approach emphasized is laboratory training. It provides situations in which the trainees themselves experience through their own interactions some of the conditions they are talking about. In this way they more or less experiment on themselves.



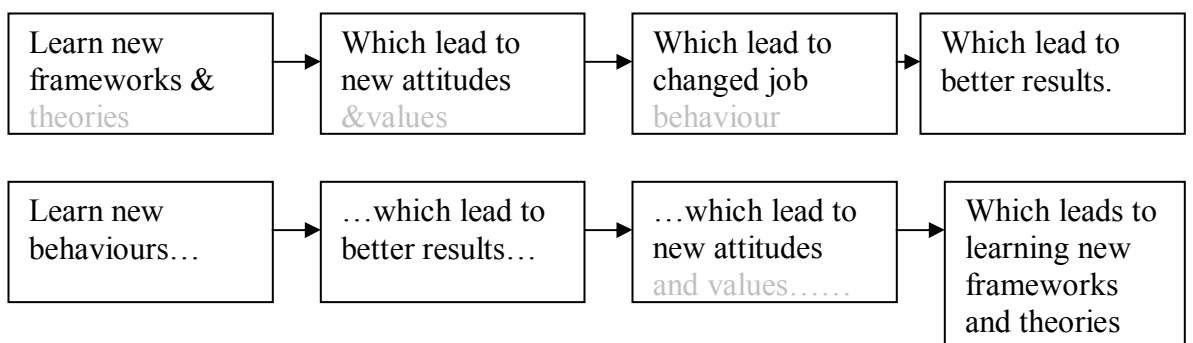
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**Role-playing:** Role-playing is a laboratory method that can be used rather easily as a supplement to conventional training methods as well as in OD.

**Simulations:** While role-playing exercises are often relatively brief; simulations may last for hours or even days. Simulations are comprehensive experimental approaches that create many dimensions of work life in organizations.

**Behaviour modeling:** It is a method for teaching skills to handle commonly encountered behavioural problems.

Training models for traditional training and behaviour modeling



**OD interventional strategies:** Also called OD programmes or techniques, a wide range of interventional strategies has been used in USA and some other advanced countries. There are two broad categories and interventions viz., behaviour focused intervention and structure focused interventions.

**Behaviour focused programmes:** Behaviour focused programmes are directed at changing the attitudes, behaviour and interactional patterns of individuals and groups. Some of the more popular developmental programmes are career planning and development, assertiveness training, sensitivity training, transactional analysis, process consultation, team building, inter group team building, and the managerial grid.

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**Encounter groups:** Encounter groups involve unstructured small-group interaction under stress in a situation that requires people to become sensitive to one another's feelings in order to develop reasonable group activity.

**Team building:** Team building encourages team members to examine how they work together, to identify their problems, and to develop more effective ways of cooperating. The goal is to make the team more effective.

**Survey feedback:** As an OD intervention is a more powerful tool that surveys members of an organization and reports the results directly to the persons involved for their interpretation and action.

**Structure focused programmes:** These programmes attempt to improve organizational effectiveness by changing tasks, structural relationships, and other managerial practices. These programmes include behaviour modification, job enlargement, job enrichment, and flextime, linking pin organization, matrix organization, management by objectives (MBO) and survey feedback.

**Benefits and limitations of OD**

Organization development is a useful organizational intervention. The benefits and limitations are summarized as follows:

Benefits and limitations of organization development

Benefits of OD	Limitations of OD
Change throughout organization	Major time requirements
Greater motivation	Substantial expense
Increased productivity	Delayed payoff period
Better quality of work	Possible failure
Higher job satisfaction	Possible invasion of privacy
Improved teamwork	Possible psychological harm
Better resolution of conflict	Potential conformity

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Commitment to objectives	Emphasis on group processes rather than performance
Increased willingness to change	Possible conceptual ambiguity
Reduced absences	Difficulty in evaluation
Lower turnover	Cultural incompatibility
Learning individuals and groups	

Summary

In this lesson we have discussed the concepts and nature of OD, and we understood that the benefits and limitations of OD. Organization development is the systematic application of behavioural science knowledge at various levels to bring about planned change. It emphasizes the whole organization as operating system. The OD processes covers such steps as diagnosis, datacollection, feedback and confrontation, action planning, term building, intergroup development, and follow up. OD consultants make a variety of assumptions that guide their behaviour, and rely on range of skills such as process consultation and feedback

Organization development makes heavy use of experiential learning methods, such as role-playing, simulation, and behaviour modeling. Three major intervention approaches include encounter groups, team building, and survey feedback.

Although OD has limitations, it is an excellent practice for introducing change, improvements, and self-renewal in organizations. It differs sharply from traditional training method by its focus on the entire system and its advocacy of humanistic values. OD programs typically use a change agent to assist with action research and feedback, and apply a variety of experiential learning methods within a contingency framework.

Terms and concepts for review:

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- Behavioural modeling
- Intervention
- Structure focused programmes
- Behavioural focused programmes
- Objectives of OD
- Humanistic value
- Encounter value
- Survey feedback
- Team building
- Organizational development
- Benefits and limitations of OD
- Assumptions underlying OD
- The OD process
- Variables in Likert’s OD approach
- Characteristics of OD

Self-assessment questions

1. The field of OD has been based on humanistic values. Discuss how its skills and intervention methods would be different if those values were not important.
2. Create a list of the kinds of organizational behaviour skills that would be useful to an OD consultant.
3. How do role-playing, simulation, and behaviour modeling differ as training methods? Do they have similarities also?
4. A manager suggested, “Traditional training helps employees learn something. But OD helps them learn how to learn something.” Discuss this distinction.
5. Summarize the different phases by which an OD program develops? How does this differ from conducting attitude surveys?
6. Examine the OD assumptions. Which of these do you agree/disagree most strongly with? Explain your feelings.

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7. All adults have had experiential learning, whether it as in a classroom or not. Select a situation in which you had experiential learning, describe it, and then tell how it affected you. Why were you affected the way you were?
8. Discuss the strengths and weaknesses of encounter groups?
9. Identify three major benefits and three major limitations of OD. Do you think the benefits outweigh the costs? Report your choices, giving reasons for your selection.
10. What are the objectives of OD?
11. What are the benefits and limitations of OD?

## Management Processes &amp; Behaviour

## UNIT – V

**LESSON** **21** *MANAGEMENT APPROACHES AND STYLES***LESSON OUTLINE**

- Human Relations Approach
- Hawthorne Experiment
- Systems Approach
- Contingency Approach
- Operational Approach
- Quantitative Approach
- Human Resource Management Approach
- Management Science Approach
- Management Styles

**LEARNING OBJECTIVES**

*After reading this lesson you should be able to*

- ❖ Explain various approach of management.
- ❖ Understand human relations approach
- ❖ Describe the Hawthorne Experiments
- ❖ Explain the components of Systems approach.
- ❖ Analyze contingency approach
- ❖ Differentiate systems approach and contingency approach.
- ❖ Understand operational and quantitative approaches
- ❖ Explain different styles of management.

## INTRODUCTION

There are different approaches in management. The managers as according to their belief and convenience adopt any one or a combination of approaches in managing their organizations. The important management approaches are presented here.

## HUMAN RELATIONS APPROACH

### *Human Relations: Definition*

Human relations pertains to motivating people in organizations in order to develop teamwork which effectively fulfils their needs and leads to achieving organizational goals. Thus human relations.

- strive to create a positive and conducive work environment, focuses on people,
- has the ultimate goal of increase in productivity and
- seeks to build human cooperation towards achievement of organizational goals.

The human relations approach is the outcome of reactions of classical theorists like Many Parker and Chester I Barnard. Elton Mayo and his associates pointed out that the techniques of scientific management are not adequate and they do not contribute to individual and organizational goals.

The essence of human relations approach is that workers should be treated as human beings but not as mere factors of production. Workers need, feelings, attitudes, value and desires are extremely important. The theme of human relations approach is that (i) organizational situation should be viewed in social terms as well as in economic and technical terms and (ii) the social process of group behaviour can be understood in term of the clinical method analogous to the doctor's diagnosis of the human organism.

## HAWTHORNE EXPERIMENTS

An intensive and systematic analysis of human factor was made in the form of Hawthorne Experiments. Elton Mayo is generally recognized as the father of human relations approach although a number of professors of the Harvard Business School and managers of Hawthorne Plant of Western Electric Company USA where the experiments were conducted between 1924 and 1933 had been associated with him. The series of experiments conducted may be classified as:

### *(i) Phase 1. Illumination Experiments*

This experiments was conducted to know the impact of illumination on productivity. The experiment involved the prolonged observation of two groups of employees making telephone relays. The intensity of light under which one group worked (test group) systematically varied while the light was held constant for the second group (control group). The productivity of the test group and control group increased. The researchers concluded that some other variables were contaminating the effects of the light changes.

### *(ii) Phase 2. Relay Assembly Test Group*

A small group of workers was placed in a separate room and a number of variables were altered – like wages were increased, rest periods of varying lengths were introduced, the workday and work week were shortened. The supervisors, who acted as observers, also allowed the groups to choose their own rest periods and members of their own groups and to involve in decision making regarding suggested changes. Performance tended to increase over the period but it also increased on decreased erratically.

### *(iii) Phase 3. Interviewing Programme*

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Mayo initiated a three year long interviewing programme in 1828, covering more than 21,000 employees to find out the causes for increased productivity. The emphasis of the phase was on human relations rather than on working conditions. This programme initially proved to be useless as employees often gave stereotyped responses. This led the interviewers towards asking indirect questions. Then the employees began to air their feelings freely. The point demonstrated by this interviewing programme is central to the human relations approach. And for the first time, the importance of the informal work group is recognized. Then, the bank wiring room experiment was set up in order to find out how informal work groups operate.

### *(iv) Phase 4. The Bank Wiring Observation Room Experiment (1931-32).*

In this experiment, 14 male workers were formed into a work group and intensively observed for seven months in the bank wiring room, engaged in the assembly of terminal banks for the use in telephone exchanges. The employees were paid individual wages and a bonus based on group effort. It was expected that highly efficient workers would bring pressure on others for increased output and high bonus. However, the expected results did not come about and indeed the group developed specific mechanisms to protect themselves based on certain sentiments:

The rate buster sentiment	:	don't turn out too much work.
The chiseler sentiment	:	don't turn out too little work.
The squealer sentiment	:	don't tell superiors anything that would harm an associate.
The officious sentiment	:	don't act too officious in performing duties, conform rather to work group norms.

Work group norms, beliefs, sentiments had a greater impact in influencing individual behaviour than did the monetary incentives offered by the

## Management Processes & Behaviour

management. Thus, the Hawthorne Experiments indicated that employees were not only economic beings but social and psychological beings as well.

The researchers concluded that employees would work better had they believed that the management was concerned about their welfare and supervisors paid special attention to them. This phenomenon (subsequently labeled the Hawthorne effect). Has remained quite controversial to this day.

The concept social man, according to Mayo, motivated by social needs, wanting, rewarding on-the-job relationships and responding more to work-group pressures than to management control – was necessary to complement the old concept of rational man motivated by personal economic needs.

### *Criticisms of the Human Relations Approach*

- (ix). **Scientific Validity:** Although the Hawthorne Experiments profoundly influenced the managers in managing their employees, the studies had many weaknesses of design, analysis and interpretation. Whether Mayo and his colleagues' conclusions are consistent with their data is still the subject of lively debate and considerable confusion. These studies had a clinical bias as they discounted theory and stressed on radical empiricism. Most of the conclusions are not supported by adequate scientific evidence.
- (x). **Shortsighted:** The following points confirm the shortsightedness of this approach: (i) it lacks adequate focus on the work, (ii) human relations tend to neglect economic dimensions of work satisfaction and (iii) human relations research is concerned with only operative employees but not managerial and supervisory personnel.
- (xi). **Over concern with happiness:** The Hawthorne studies suggested that happy employees would be productive employees. But studies

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have failed to establish a positive correlationship between happiness and productivity.

- (xii). **Misunderstanding of Participation:** Many of the post Hawthorne human relationists expected that participation would reduce resistance to formal authority and would ensure worker’s support for organizational goals. But recent studies indicate that employees want to be utilized properly.
- (xiii). **The Mystery surrounding group decision- making:** Research evidence on the superiority of group decision-making to individual decision-making is conflicting and inconclusive. The entire thinking of group decision-making is mystical.
- (xiv). **Conflict:** The human relationists failed to recognize positive aspects of conflict like creative force in society. They believed that conflict is always bad and should be minimized.
- (xv). **Anti-Individualist:** The human relations movement is anti-individualist. The concept of individualism and individual behaviour which is predominant in an organizational setting is overridden by the concept of group decision-making and group behaviour. Human relations approach failed to describe completely individuals in the work place.
- (xvi). **Total Work Environment is not considered:** Work environment comprises of organizational structure, its culture and climate, labour-management relations, social environment etc. But the human relations approach considered only social environment as the total work environment.

The next approach developed towards management is systems approach. Now, we shall study the system approach to management.

Management Processes & Behaviour

ACTIVITY - A

What is Human Relations?

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ACTIVITY - B

Describe the Contributions of Human Relations Approach.

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SYSTEMS APPROACH TO MANAGEMENT

A system is a set of interrelated but separate parts working towards a common purpose. The arrangement of elements must be orderly and there must be proper communication facilitating interaction between the elements and finally this interaction should lead to achieve a common goal.

Thus, systems approach to management views the organization as a unified, purposeful system composed of interrelated parts. Hence, managers have to deal with the organizational as a whole rather than dealing separately with various segments of an organization. This approach also gives the managers to see the organization as a whole and as a part of the larger external



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environment. Systems theory reveals to us that the activity of any segment of an organization, effects in different degree, the activity of every other segment.

Systems-oriented managers would make decisions only after they have identified impact of these decisions on all other departments and the entire organization. The essence of the systems approach is that each manager cannot function in isolation and within his organizational boundary of authority and responsibility of the traditional organizational chart. They must interwire their departments with the total organization and communicate with all other departments and employees and also with other organizations.

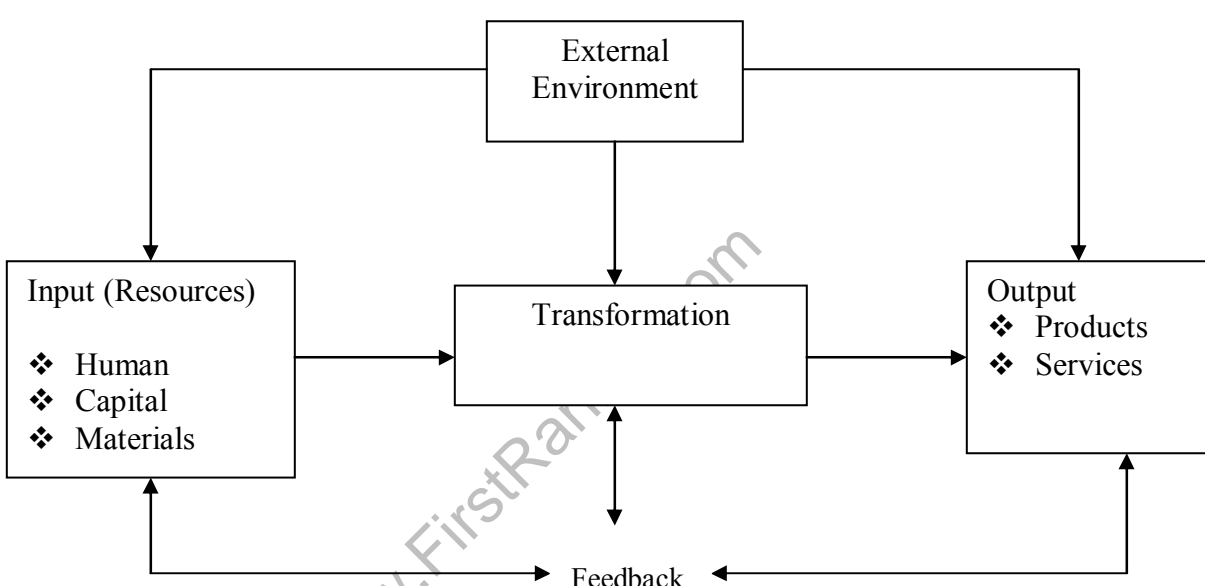
### Key Concepts of Systems Approach

- (vii). **Subsystem:** Subsystems are those parts which make up the whole system. Each system in turn may be a subsystem of a still larger system. Thus, a department is a subsystem of a factor, which is a subsystem of a firm, which is a subsystem of an industry, which is a subsystem of a national economy, which is a subsystem of the world economic system.
- (viii). **Synergy:** Synergy is the situation in which the whole is grater than the sum of its parts. In organizational terms, synergy means the departments that interact co-operatively are more productive than they would be, if they operated in isolation.
- (ix). **Open System:** It is a system that interacts with its environment. All organizations interact with their environment, but the extent to which they do so varies.
- (x). **Closed System:** It is a system that does not interact with its environment.

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- (xi). **System Boundary:** It is the boundary that separates each system from its environment. It is rigid in a closed system while flexible in an open system.
- (xii). **Flows:** A system has flows of information, materials and energy. These enter the system from the environment as inputs (like raw materials), undergo transformation process within the system (like production process) and exist in the system as outputs (like products/services).(figure.4.1 shows the flows and feedback in an open system).

Figure: 21.1 The Flows and Feedback in the Open System



- b. **Feedback:** It is the part of system control in which the results of actions are returned to the individual, allowing work procedures to be analyzed and corrected.

System approach helps the dynamic and interrelated nature of organizations to plan for actions and anticipate consequences and mutual effects. It helps the



## Management Processes &amp; Behaviour

general managers to maintain balance among various subsystem and the organization. Thus a major contribution of the systems approach results from its strong emphasis on the interrelatedness or mutuality of various subsystems of the organization. Treatment of the organization as an open system is another contribution of systems approach.

**ACTIVITY - C**

Define the key concepts of systems Approach

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**CONTINGENCY APPROACH**

This approach is also called situational approach. This approach was developed by managers, consultants and researchers who tried to apply the concepts of the major schools to real life situation. They sought to know the causes for the success of methods in one situation and failure another situations differ, as such a technique that works effectively in one situation will not necessarily work in all cases. Hence managers have to identify the technique which will best contribute to the attainment of the management's goal in a particular situation, under particular circumstances and at a particular time. Classical theorists suggest work implication for increase in productivity whereas behavioural scientists suggest job enrichment. But the manager under contingency approach should find out which method will work better in that particular situation. This approach builds upon systems approach. The composition of a particular situation or system will help to know the techniques best suited to that particular situation or system.

## Management Processes &amp; Behaviour

**Systems Approach Vs. Contingency Approach**

Clear-cut emergence of contingency approach was noticed after the popularization of systems approach. In fact, contingency approach is an outgrowth of systems approach. The contingency theorists accept open adaptive nature of the organization and the interdependency between various sub-systems of the organization. But they have pointed out that the systems approach does not adequately spell out the precise relationship between organization and its environment. It is too abstract and difficult to apply in practice. They have tried to modify and operationalise the system framework.

The systems approach takes a broader view of organizational variables and employs a comprehensive model of human beings. It takes into account the full range of human needs and motives. On the other hand, contingency approach is concerned mainly with the structural adaptation of organizations to their task environment. But both these viewpoints are not mutually exclusive. They should be treated as complementary to each other. The manager should use systems and other approaches under the framework of contingency approach.

**ACTIVITY – D**

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**OPERATIONAL APPROACH**

Koontz and O'Donnell have suggested the operational approach to management and in doing so, they have attempted to draw together the pertinent knowledge of management by relating it to the managerial job, i.e., what managers do. This

## Management Processes &amp; Behaviour

approach recognizes that there is a central core of knowledge about managing which exists in managements such as line and staff, patterns of departmentation, span of management, managerial appraisal, and various managerial control techniques. Many other pertinent elements of knowledge are derived from other fields such as application of systems theory, motivation and leadership, decision making, group behaviour and cooperative systems, communication, and mathematical analysis and practices.

Operational management has a central core of knowledge not found elsewhere. It also draws from other fields of knowledge and adopts within it those parts of these fields which are especially useful for managers. The operational approach regards management as a universally applicable body of knowledge that can be brought to bear at all levels of managing and in all types of enterprises. At the same time, the approach recognizes that the actual problems managers face and the environments in which they operate may vary between enterprises and levels, and it also recognizes that application of science by a perceptive practitioner must take this into account in designing practical problem-solutions.

The operational approach is quite similar to the **modified management process** approach advocated by G.R. Terry. It may also be called eclectic process school of management, featuring the basic framework of the process approach modified by certain theories from other appropriate schools of management thought. Eclectic means consisting of “what is selected” and this term has been interpreted to indicate taking the best from what is available in the management thought and working it into a single theory moulded around the process framework as the central core.

**QUANTITATIVE APPROACH**

## Management Processes &amp; Behaviour

The quantitative or mathematical approach to management developed in the 1950's. It offered systematic analysis and solutions to many complex problems faced by management in the real world. The quantitative school of management is also called operations research (OR) or management science. Mathematical and statistical tools are now applied in the field of management, particularly in decision making on complex problems. More commonly used OR techniques are linear programming, game theory, queuing, simulation and probability. Together, these quantitative decision-making tools are called ‘operations research’.

Computer is used to find out solutions to complex management problems. Production scheduling, replacement of capital equipment, inventory control, plant location, transportation problems, warehousing problems, and many other complex managerial problems are being solved today with the active help of operations research and computers. Management scientists, with the help of mathematics, statistics and electronic computer, can now construct mathematical models containing as many as one thousand simultaneous equations. Churchman defined operations research as an application of the scientific method to problems arising in the operations of a system which may be represented by means of a mathematical model and the solving of these problems by resolving the equations representing the system. The development of models to represent a system under study requires the skills of many branches of knowledge such as mathematics, statistics, engineering, economics, physical sciences, behavioural sciences, and cost accounting as well as management experts.

**HUMAN RESOURCE MANAGEMENT APPROACH**

Human resource is a principal and central sub-system and resource of an organization. Both the human resource system and the entire organization

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operate under the same environmental factors. Greater the effectiveness and productivity of human resources, the more will be the effectiveness of the organization. Most of the managers say, our greatest asset is people. Human resource management approach is developmental. It is concerned with the growth and development of people towards higher levels of competency. Creativity and fulfillment.

The human resource management approach is supportive. It helps employees to develop through training and development and other techniques of human development. It also develops more responsible and committed persons through the creation of conducive organizational climate, strong culture, attractive reward system, free and challenging work environment, team spirit and the like.

This approach assumes that increased capabilities and expanded opportunities for people will lead directly to the improvement of the organizational effectiveness and efficiency. Employee job satisfaction will also be a direct result when employees make use of their resources to the fullest extent. Thus, the human resource management approach reveals that sound management of human resources through proper training and development, judicious salary administration, creating conducive work environment, providing challenging job and maintaining sound industrial relations result in the employee contribution for achievement of organizational goals.

**MANAGEMENT SCIENCE APPROACH**

Science is a systematically organized body of knowledge based on proper findings and exact principles and is capable of verification and general application. Science is systematic in the sense that certain relationships between variables have been ascertained, principles and their limitations have been discovered, tested and established. Facts are determined based on events or this

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observed initially with the help of scientific methods. The accuracy of the facts are verified through observations on a continuous basis. Thus, the knowledge obtained must be verifiable in scientific method. Any subject to be called science must have the following characteristics:

- g. Systematic body of knowledge
- h. Method of scientific enquiry
- i. Should establish cause and effect relationship
- j. Principles should be verifiable
- k. Should ensure predictable results
- l. Should have universal application.

Management has a systematized body of knowledge pertaining to its field. The scientific character of management is well supported by mathematical models and operations research. A manager can also take appropriate decisions based on decision science like any scientist.

The principles underlying time and motion studies, market research, morale, motivation, job satisfaction etc. are developed based on scientific enquiry. Many management principles like planning, direction, organization, motivation, morale etc., establish cause and effect relationship. Management principles like unity of command, span of control and unity of direction can be verifiable. Those in the category of job satisfaction, morale and job enrichment ensure predictable results. Almost all the management principles are universally applicable.

However, it must be pointed out that management cannot be an exact science like physics, chemistry and natural science. According to Peter F. Drucker, management can never be an exact science. Further, management can not be an exact science as business is highly dynamic and business

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conditions change continuously. Management can be a social science as it mostly deals with human beings.

**Ten Management Styles**

In this book 'Managing with Style and Making It Work for You', Henry O. Golightly, founder of Golightly and Company International, a consulting firm, lists of the following management styles.

**1. Management by Inaction:** The manager who does nothing, or at least puts off doing anything. He may be too fearful, uncertain, or bored to take action, but he also assumes that "if you ignore a problem, it will go away, or at least, get better". He functions best in areas where change comes slowly and where he works for people who prefer to make their own decisions rather than to delegate them.

**2. Management by Detail:** The manager who researches a problem to death instead of solving it. He works best with people who appreciate his information, don't depend on him for quick or dramatic decisions, and will set deadlines for him.

**3. Management by invisibility:** The manager who make himself inaccessible for various reasons, thus forcing subordinates to do more of the work and take the heat. He works best with people who don't need to interact with him, but he needs the presence of a few people so he isn't allowed to isolate himself totally.

**4. Management by Consensus:** The manger who wants decisions to be a group effort. He either wants harmony or is afraid to make decisions by himself. He does not work well with people who won't interact with him or who expect him to generate his own ideas. But he does work well in decentralized companies that stress human relations.

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**5. Management by Manipulation:** The manager who is most concerned with getting people to do what he wants. He values control for control's sake. He works will with people who are not likely to challenge his methods and may even use them for their benefit. He works best in situation with well-defined goals for which he can aim.

**6. Management by Rejection:** The manager who is overwhelmingly negative. He picks apart all ideas and resists change. He can make a contribution by tempering hastily through-out or ill-advised schemes conceived by more dynamic co-workers.

**7. Management by survival:** The manger who looks out primarily for himself. He has a subordinate mentality a good follower but one unwilling to take risks. He works best "in an organization large and stable enough to value the consistent performer who is not a 'tiger'".

**8. Management by Despotism:** The manager who rules with an iron fist and expects complete subjugation. He works best under people who leave him alone to run things and will get cooperation from subordinates by paying them well.

**9. Management by Creativity:** The manager who manages instinctively. He bases his actions and decisions on hunches, which may or may not be right. He works best with people who will respect his ideas, if not always follow them, who will leave him alone to be creative, or who will organize and implement his good ideas and pass over his bad ones.

**10. Management by Leadership:** The Manager who listens to his subordinates and then shows them direction. He values both interaction and goals. He adopts techniques from all the other management styles and knows when to use them and how to keep them in balance.

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**ACTIVITY – E**

Explain any two important management styles.

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**SELF - ASSESSMENT QUESTIONS**

6. Comment on the Hawthorne Experiments and their outcome.
7. What is human relations? Discuss the contributions to and major concepts in human relations.
8. Appraise the systems approach to management. What are its features?
9. Write short notes on: (i) Contingency approach to management (ii) HRM approach to management (iii) Management Science Approach to management.
10. What is management style? Explain various management styles.

**FURTHER READINGS**

5. Elton Mayo, The Human Problems of an Industrial Civilization, The MacMillan Company, New York, 1933, p.29.
6. Gary Yunker, The Hawthorne Studies: Facts and Myths, Faculty Working Papers, Department of Psychology, Jacksonville State University, Summer, 1985.
7. Seymour Tilles, The Manager's job – A System's Approach, Harvard Business Review, January – February 1963, pp.7381.
8. Herbert G.Hicks and C.Ray Gullett, Organization Theory and Behaviour, McGraw-Hill Book Company, New York, 1975, pp201-221.

**KEY TERMS**

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- ❖ Management Science Approach
- ❖ Human Relations
- ❖ Work Group
- ❖ Systems Approach
- ❖ Contingency Approach
- ❖ Operational Approach
- ❖ HRM Approach
- ❖ Unity of Command
- ❖ Synergy
- ❖ Open System
- ❖ Closed System
- ❖ Quantitative approach

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## LESSON

## 22

**JAPANESE MANAGEMENT PRACTICES  
AND CREATIVITY AND INNOVATION****LESSON OUTLINE**

- Unique features of Japanese management.
- Techniques of Japanese management.
- Weakness of Japanese management.
- Creativity.
- Creativity and Innovation.

**LEARNING OBJECTIVES**

*After reading this lesson you should be able to*

- ❖ Explain the unique features of Japanese management.
- ❖ Understand the inherent weakness of Japanese management.
- ❖ Define Creativity.
- ❖ Explain the climate for organizational Creativity.
- ❖ Understand what is innovation and the rules of stifling innovation.

**INTRODUCTION**

It is anybody's knowledge that Japanese economy was reduced to scrambles during the Second World War. The war had a devastating effect in that the whole economy had to be rebuilt from scratches. Looking back, it is quite amazing to note how Japan as a nation could achieve such a tremendous development in all the sectors of the economy in a span of about 50 years. In a way, Japan amply demonstrated to the whole world what a nation could achieve given the commitment and determination of its people. As such, there is no wonder that captains of the industry, management thinkers and practioners, all over the world began to examine the factors that contributed to the Japanese success often described as 'Japanese miracle'.

In the several studies conducted by the management thinkers, it was found that the secret lies in their management system. They have developed a comprehensive system that combining structure and people in a way that, when integrated with Japanese culture, generates a highly productive and efficient organization.

**UNIQUE FEATURES OF JAPANESE MANAGEMENT**

The Japanese management system has three levels of attention: an overall focus, general strategies and specific techniques.

**FOCUS**

The essence of management in large Japanese organizations is its focus on human resources. Management considers its human resources, more than its



## Management Processes &amp; Behaviour

financial or physical resources. The Japanese organizations go all out to develop the human resources. Much of the Japanese management revolves around a distinct approach to personnel management. Such a focus on the human resources helped the Japanese industry to achieve so much, inspite of the poor endowment of natural resources.

**STRATEGIES**

The concern for human resources is manifested in three interrelated strategies. First, employees are offered long-term employment. This demonstrates the organization's commitment to its people. Second, the organization's philosophy concerning employee needs and the values of cooperation and teamwork are well articulated. Third, close attention is given to hiring new employees who will fit well into the organization and to ensuring that this fit is maintained and enhanced throughout the employee's work life.

**(i) Long-term employment**

The U.S. view towards employee is that when times are bad, employees are laid off or fired. In Japan, except in the most severe economic circumstances, employees are assured of permanent employment. Usually new employees are hired fresh out of educational institutions. The organization then trains them, makes promotions from their internal pool, and emphasizes seniority in the allocation of rewards. Long – term employment results in employees with high morale. From the organization's view point, turnover is low, training costs are low, and organizational cohesiveness is higher.

**(ii) Organizational Philosophy**

Each Japanese organization has a specific philosophy that presents a clear picture of its objectives and values. It acts as a superordinate goal – a shared and unifying goal with which all organizational members can identify, support and place above any one person's individual goals. A common theme among

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Japanese companies is a heavy emphasis on cooperation and teamwork. Members of the company are part of a family. The team spirit and cooperation characteristic of a family are possible with the security provided by the strategy of permanent employment.

**(iii) Intensive Socialization**

Employees once hired, undergo an initial training programme, the purpose of which is to familiarize the employee with the organization. Over a period the employee identifies himself with the company. He is socialized very intensively.

**TECHNIQUES****(i) Job relation and slow promotion**

In Japan, life-time employment means limited upward mobility. Movement is predominantly lateral through job rotation. Promotions when they come are based on seniority.

**(ii) Complex appraisal system**

In addition to the output, employees are appraised on the basis of traits such as creativity, honesty, seriousness, maturity, and cooperation with others. Employees' performance in the long run is given more importance, since evaluation is done not exactly on the basis of immediate performance. Employees are naturally motivated to demonstrate loyalty and commitment by their attitudes and actions.

**(iii) Emphasis on work groups**

The Japanese system gives far greater attention to organizing tasks around groups than around individuals. Autonomous work teams are constituted. Tasks are assigned to such teams and the group members of the team then decide among themselves the best way for performing the tasks.

**(iv) Open Communication**



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The Japanese system is inherently designed to foster open communication. Job rotation and emphasis on groups means that employees build an informal network that facilitates extensive face to face communication. The physical work setting is also designed to foster communication. People work in cubicles and in open space which facilitate interaction and open communication.

(v)     **Consensus Decision-making**

In the Japanese model, the manger, while taking decisions, discusses them to those who may be affected by the decision. When all are familiar with the proposal, a formal request for a decision is made, and as a result of the previous informal preparations, it is easily ratified.

(vi)    **Concern for the employee**

Managers spend a great deal of their time talking to employees about everyday matters. They take keen interest in employees needs and problems. In fact, the concern for employees is one of the parameters on which managers performance is appraised. Japanese companies offer a wide range of benefits to their employees. Beyond the usual incentives, a comprehensive offering of cultural, athletic, and recreational activities is very common. For instance, an annual calendar of office events might include several overnight trips, monthly Saturday afternoon recreation, and an average of six office parties, all at the company’s expense. In addition welfare measures like subsidized family housing for married, dormitories for the unmarried, nurseries for pre-school children, scholarships for children, mortgage loans and the like speak a lot of about the concern for employees.

William Onchin, an American management thinker had extensively studied organizations and gave a name to their management practices, called Theory ‘Z’. He strongly advocated for the adaptation of Japanese practices for the American companies to improve productivity. The differences between

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Japanese practices and American management practices are explained in lesson The Best Management Practices.

**ACTIVITY-A**

Describe the features and techniques of Japanese Management practices.

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**THE INHERENT WEAKNESSES OF JAPANESE MANAGEMENT**

- ❖ The system of life time commitment and groupism encouraged employees depending and suppressed individual creativity;
- ❖ The employment system discriminated against non-life time employees and prevented the formation of a free horizontal labour market;
- ❖ The seniority-based system of rewards created a promotion gridlock for middle management and especially for the younger outstanding employee.

By the mid – 1980s the entire system of Japanese management faced three major challenges:

- ❖ After the dramatic rise in the value of Yen, the problem of cost containment became much more difficult. How to reduce labour cost, and restructure without resorting to massive lay offs has become a problem;
- ❖ How to continue to motivate employees in a new environment in which the system of evaluation and rewards, as well as employee attitudes and expectations, is change;

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- ❖ How to redesign employment relationships in a way that would blend the advantages of the order system of dependence in the company with the necessity to promote employees self-reliance, initiative and creativity.

**THE EMERGENCE OF A NEW PARADIGM**

- ❖ Companies rely on hiring freezes and on elimination of overtime;
- ❖ Extensive use of job rotation and employee reassignments;
- ❖ Wage, salary and bonus reductions are shared by all groups in the enterprise; Directors, managers as well as workers.
- ❖ Wide use of inter-company manpower, leasing and transfer.
- ❖ Erosion of seniority and promotions.
- ❖ Companies are using various forms of early retirements incentives.

As a result, performance appraisal systems and wage structures are undergoing changes.

- ❖ Company and work-group loyalties are replaced by individualism.
- ❖ Lifetime employment is undergoing change
- ❖ Hiring on the basis of skills for a specific, narrowly defined job opening is growing.
- ❖ Mobility among Japanese managers and professionals is also increasing
- ❖ Japanese employees' preference for security over risk and opportunity is also change.
- ❖ Creation of multi-trade employment system. Employees hired for 'life' can enter the general track and can be moved horizontally (job rotation) as well as vertically (grade promotion).

The changes going on are not designed to destroy the old system but to increase its flexibility. This is very much in keeping with the traditional Japanese approach to change; however fast and deep it is, continuity with the

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uniquely Japanese "essence" must be maintained. The new Japanese urgent paradigm will certainly be different. Yet like the modern Japanese home which usually retains a Japanese style room among western systole rooms and furnitures', the Japanese company will retain a core of Japanese practices.

Source: Tomasz Mroczkowski & Masao Hanaoka, "continuity and change in Japanese Management", California Management Review, Winter, 1989.

**ACTIVITY-B**

Write the weakness of Japanese management practice.

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**CREATIVITY**

The growth and survival of the business in the dynamic environment as of today depends upon the development of new product. Organizations must be always in the lookout of new opportunities and exploiting the opportunities by creating new products and services. Therefore; it is needless to say that new product development holds the key for the survival of an organization. New products do not come about on their own. They are the result of the ingenuity of creative people in the organization. As such, it is obvious that new product development is the function of organizational creativity. In other words, it depends upon how creative an organization is in respect of new ideas because any organization can

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be as creative as its people. Having understood the importance of creativity, the organizational context, let us understand the meaning and process of creativity.

**Meaning of Creativity**

Creativity, in general, may be defined as an “escape from mental stuckness”. In the organizational context, it may be viewed as new insights, which points to better ways of dealing with reality. It involves a departure from conventional thinking to non-conventional thinking. It entails establishment of a relationship between the hitherto unrelated things, ideas or concepts. A close examination of many products enable us to understand how too otherwise unrelated things are related to produce a new product. The ubiquitous wet grinder found in any of the kitchens may be cited as a best example where a relationship is established between the electric motor and the conventional stone used, since times immemorial, in the Indian homes for grinding purposes. Similar is the case with the electric bulb and the lens that are combined to develop the overhead projector used in the classrooms. The same logic holds good in the case of many products that we see around.

**CREATIVITY AND INNOVATION**

Though, at times creativity and innovation are used interchangeably, it is appropriate to know that both are different. While creativity is the generation of a new idea, innovation is the translation of such an idea into a product, service or method of production. In Lawrence B. Mohr's Words, creativity implies “bringing something new into being; innovation implies bringing something new into use”. According to Rosabeth Kanter, “innovation is the generation. Acceptance and implementation of new ideas, processes, products or services”.

Such a distinction is necessary because the skills required to generate new idea (creativity) are not the same as those required to make the ideas take

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the shape of products or services. Since both creativity and innovation are two different functions, organizations need people good at both the functions. Further, creativity alone does not contribute for organizational effectiveness, unless the creative ideas can in some way be used or implemented./ a new idea, however good it is, must be capable of implementation and must actually be implemented for the organization to benefit from it.

**THE PROCESS**

Creative people in general, are few and far between in any society. Many products and services that we take for granted these days are the result of their creative thinking.

It was J.P. Guilford, a noted psychologist who coined the phrases ‘divergent’ and ‘convergent’ in the early 1950s to describe different thinking styles. Accordingly, Convergent thinking is the sort of thinking most of us are trained to do. Divergent thinking is quite different from convergent thinking. It is intuitive thinking useful to deal with problems permitting several possible solutions, where novel, unexpected answers emerge.

Physiologically, our brain has two distinct hemispheres: one on the left side, and the other on the right. Psychologists have long back established that these two halves have totally different jobs. The function of the left side of the brain is linear thought, the type of thinking involved when you solve a mathematical problem. The right side of the brain acts or behaves in a different way. Its functions are connected with imagery, and with intuition or ‘gut-feel’.

There is an obvious parallel between convergence / divergence and the left brain / right brain model. In other words, convergent thinking takes place in the left brain while divergent thinking in the right brain. Creativity has the following steps.

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**Idea generation:** The individual selects a problem to work on or, more likely, becomes aware that a problem or need exists. This is the starting points for the new product development indeed. This refers to the awareness about the ‘gaps’ in the market.

**Preparation:** The individual becomes obsessed with the idea / problem, recalling and collecting information that seems relevant and dreaming up hypothesis without evaluating them. Openness to experience, tolerance for ambiguity and willingness and courage to redefine the existing concepts, beliefs are the important psychological attributes required at the stage.

**Incubation:** After assembling the available information, the individual relaxes and the subconscious mind becomes active. In this not much understood but crucial step, the individual often appears to be idle or day dreaming, but the subconscious is infact trying to arrange the facts into a new pattern. Psychological freedom and safety are important at this stage.

**Illumination:** This is something which we experience quite often. Often when least expected – while eating, or falling asleep or walking – the new, integrative idea will flash into the individual’s mind. Such insights must be recorded quickly, because the conscious mind may forget them in the course of other activities.

**Verification and Application:** The individual sets out to prove by logic or experiment that the idea can solve the problem and can be implemented. Tenacity may be required at this point. It is at this state the individual thatches over to the logical, analytical or convergent thinking. The practical implications are examined what is known as feasibility, both technical and economic.

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### ACTIVITY-C

Define creativity and write the process of creativity.

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### ORGANIZATIONAL CREATIVITY AND INNOVATION

Just as individuals differ in their ability to translate their creative talents into results, organizations also differ in their ability to translate the talents of their members into new products, process or services. To make the organizations’ creative, managers need to know the steps involved in the individual creativity process analyzed above and take initiative to encourage the process.

#### THE CLIMATE FOR ORGANIZATIONAL CREATIVITY

Creativity is best nurtured in a permissive climate which encourages the exploration of new ideas and new ways of doing things. The following aspects, if practiced, would contribute to fostering creativity in organization.

#### Some Prescriptions

**Accept change:** Organization members must believe that change will benefit them and the organization. Some resistance to change is found in many organizations for fear of losing positions, learning new skills, etc. Such a resistance to change has to be overcome by clarifying the need and urgency for change. The adage that routine drives out the non-routine has to be revised and must be made the other way.

**Encourage new ideas:** Managers in the organization, from top to the down must make it clear in word and deed that they welcome new approaches. To

## Management Processes &amp; Behaviour

encourage creativity, managers must listen to their subordinates ideas and suggestions. They must have an open mind.

**Permit more interaction:** A permissive, creative climate can be fostered if individuals have the opportunity to interact with other members of the group and other groups in the organization. Such interaction encourages the exchange of useful information, the free flow of ideas, and fresh perspectives on problems.

**Tolerate failure:** Many new ideas prove impractical or useless. Effective managers accept and allow for the fact that time and resources will be invested in experimenting with new ideas that may not work out.

**Freedom to achieve:** Organization members must have a purpose and direction for their creativity. Proper guidance will help managers gain control over the time and money invested in creative behaviour.

**Offer recognition:** Creative individuals are motivated to work hard on tasks that interest them. But like individuals, they must be remarked for the tasks well done. By offering recognition in such tangible forms as salary increases, recognition, the message can be conveyed that creative behaviour is valued and rewarded.

**TEN FACTORS STIFLING INNOVATION**

Rosabeth Kanter has developed a list of ten managerial attitudes that snuffle creative and innovative attempts. Such attitude will have a dampening affect at organizational effectiveness. An understanding of the following ten points may help you avoid getting into the trap.

11. Regard any new idea from below with suspicion – because it is new, and because it is from below.

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12. Insist that people who need your approval to act first go through several other levels of management to get their signatures.
13. Ask departments or individuals to challenge and criticize each other's proposals.
14. Express your criticism freely, and withhold your praise. (That keeps the people on their toes). Let them know they can be fired at any time.
15. Treat identification of problems as signs of failure, to discourage people from letting you know when something in their area is not working.
16. Control everything carefully. Make sure people count anything that can be counted, frequently.
17. Make decisions to reorganize or change policies in secret, and spring them on people unexpectedly.
18. Make sure that requests for information are fully justified, and make sure that it is not given out to managers freely.
19. Assign to lower-level managers, in the name of delegation and participation, responsibility for figuring out how to cutback, lay off, move people around, or otherwise implement threatening decisions you have made.
20. And above all, never forget that you, the higher-ups, already know everything important about this business.

**ACTIVITY-D**

Write the factors stifling innovation.

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### SELF-ASSESSMENT QUESTIONS

- Describe the salient features of the Japanese management practices.
- Critically examine the feasibility of Japanese management approaches for the management of Indian industry.
- Explain the importance of creativity in the organizational context.
- Describe the process of creativity and the important steps to be taken to develop new products and services.
- Explain the various measures to promote innovative spirit in the organizations. Also describe the factors that stifle innovation.

### FURTHER READINGS

- Harold Koontz and Heinz Weihrich, Essentials of Management, McGraw-Hill, Singapore, 1990
- Global Strategic Management Case Studies on Fortune 500 Companies, Transworld University, Volume VI.

### KEY TERMS

- Job Rotation
- Work Groups
- Appraisal System
- Creativity
- Imnovation

## LESSON 23 ENTREPRENEURIAL MANAGEMENT AND BENCHMARKING

### LESSON OUTLINE

- Importance of entrepreneur.
- Entrepreneurship
- Characteristics of entrepreneur.
- Intrapreneurship
- Benchmarking
- Advantages of Benchmarking
- Types of Benchmarking
- Phases of Benchmarking
- Benchmarking Model

### LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Explain the importance of entrepreneur.
- ❖ Understand the concept of entrepreneurship.
- ❖ Give the characteristics of

## INTRODUCTION

Entrepreneurial development is a complex phenomenon. Productive activity undertaken by him and constant endeavour to sustain and improve it are the outward expression of this process of development of his personality. Such process is crystallization of social milieu from which he comes, family imbibes, make-up of his mind, personal attitudes, caste system, educational level, parental occupation, and so on.

The words entrepreneur, entrepreneur and entrepreneurship have acquired special significance in the context of economic growth in a rapidly changing socio-economic and socio-cultural climates, particularly in industry, both in developed and developing countries. The experience in the industrialized countries like the United States of America, Germany, Japan and the United Kingdom are authoritatively cited in support of this claim. An in-depth study of the subject thus becomes not only relevant but also necessary.

### Who is an Entrepreneur?

The entrepreneur brings in overall change through innovation for the maximum social good. Human values remain sacred and inspires him to serve society. He has firm belief in social betterment and he carries out this responsibility with conviction. In the process, he accelerates personal, economic as well as human development. The entrepreneur is a visionary and an integrated man with outstanding leadership qualities. With a desire to excel, the entrepreneur gives top leadership qualities. With a desire to excel, the entrepreneur gives top priority to Research and Development. He always works for the well-being of the society. More importantly, entrepreneurial activities, encompasses all fields/sectors and fosters a spirit of enterprise for the welfare of mankind.

### Importance of an Entrepreneur

Entrepreneur is one of the most important inputs in the economic development of a country or of regions within the country. Entrepreneurial competence makes all the difference in the rate of economic growth. In India, state and private entrepreneurship co-exist. The small-scale industrial sector and business are left completely to private entrepreneurs. It is therefore, in this context that an increasingly important role has been assigned to the identification and promotion of entrepreneurs for this sector.

The need for a broad-based entrepreneurial call in the India arises from the need to speed up the process of activating the factors of production, leading to a higher rate of economic growth, dispersal of economic activities, development of backward and tribal areas, creation of employment opportunities, improvement in the standard of living of the weaker sections of the society and involvement of all sections of the society in the process of growth.



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Several factors go into the making of an entrepreneur. Individuals who initiate, establish, maintain and expand new enterprises constitute the entrepreneurial class. The socio-political and economic conditions, the availability of industrial technology and know-how, state of art and culture of business and trading, existence of markets for products and services and the incentives and facilities available for starting an industry or business, all have a bearing on the growth of entrepreneurship. A conducive environment is created through the policies and interest of the government in economic and industrial development.

**ENTREPRENEURSHIP**

Entrepreneurship may be defined as the ability to use the factors of production- and, labour, and capital – to produce new goods and services. Entrepreneurship may also be defined as the managerial process of organizing, operating, and assuming the risk of a new business venture. An entrepreneur is a person who is involved in entrepreneurship. It is important to note the difference between entrepreneurship and management. For example:

Entrepreneurship... involves combining to initiate changes in production where [management] involves combining to produce. Management therefore refers to the ongoing coordination of the production process, which can be visualized as a continual combining of the factors of production. But entrepreneurship is a discontinuous phenomenon, appearing to initiate changes in the production process.... and then disappearing until it reappears to initiate another change.

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Another way to distinguish between management and entrepreneurship is to recognize that entrepreneurs create wealth and managers administer it. It is the entrepreneur who creates the new products, the new service. It is the entrepreneur who finds a new use for an old product or process. It is the entrepreneur who has the courage to try the new, the creative, the innovative, as illustrated in figure – 23.1

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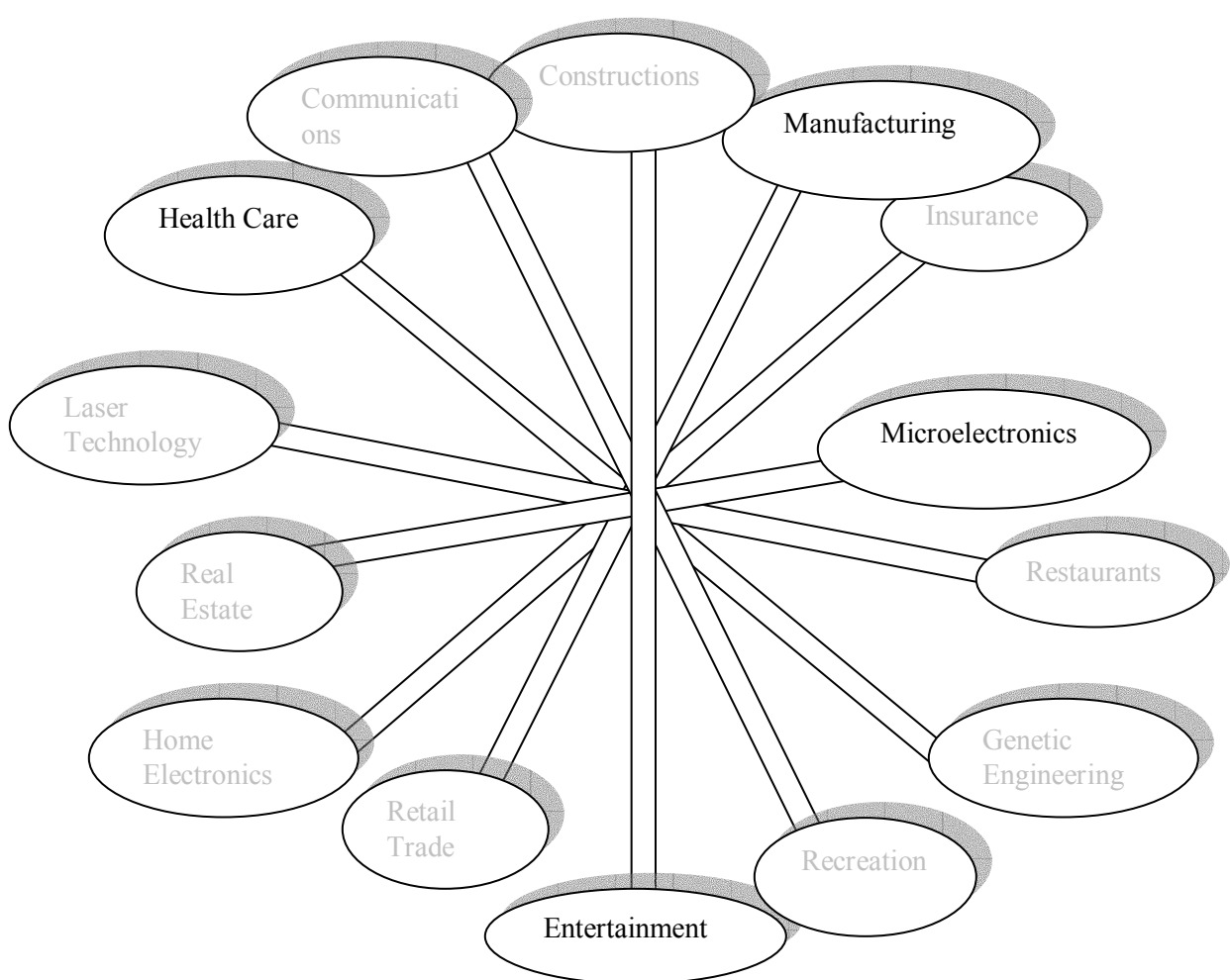


Figure – 23.1 World of Entrepreneurs limited only by imagination (Source: Hold, 1990, p679).

Above all, entrepreneurs deal with change. According to Robert Wilken (1979), entrepreneurs contribute change that can be categorized into five types;

6. **Initial expansion** – the original production of goods.
7. **Subsequent expansion** – the subsequent change in the amount of goods produced.

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8. **Factor innovation** – the increase in supply or productivity of the factors of production.
  - (a) **Financial** – the procurement of capital from new sources or in new form.
  - (b) **Labour** – the procurement of labour from a new source or of a new type; the upgrading of existing labour.
  - (c) **Material** – the procurement of old material from a new source or the use of a new material.
9. **Production innovations** – changes in the production process.
  - (a) **Technological** – the use of a new production technique.
  - (b) **Organizational** – change in the form of structure or relationships among people.
10. **Market innovation** – changes in the size or composition of the market.
  - (a) **Product** – the production of a new good or the change in quality or cost of existing goods.
  - (b) **Market** – the discovery of a new market.

Concept of Entrepreneurship

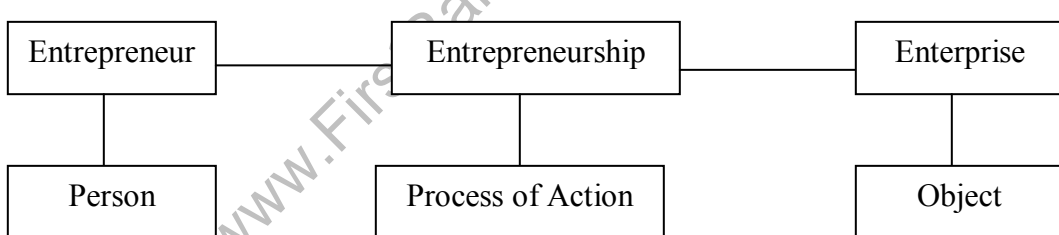


Figure – 23.2 Concept of Entrepreneurship

CHARACTERISTICS OF THE ENTREPRENEUR

Considerable research has been dedicated to the task of identifying the traits and characteristics of the typical entrepreneur. According to John Hornaday (1982, p 28), the characteristics of successful entrepreneurs are as follows:

- Self-Confidence
- Energy, diligence
- Ability to take calculated risks
- Creativity
- Flexibility
- Positive response to challenges
- Dynamism, leadership
- Ability to get along with people
- Responsiveness to suggestions
- Responsiveness to criticism
- Knowledge of market
- Perseverance, determination
- Resourcefulness
- Need to achieve
- Initiative
- Independence
- Foresight
- Profit orientation
- Perceptiveness
- Optimism
- Versatility
- Knowledge of product and technology

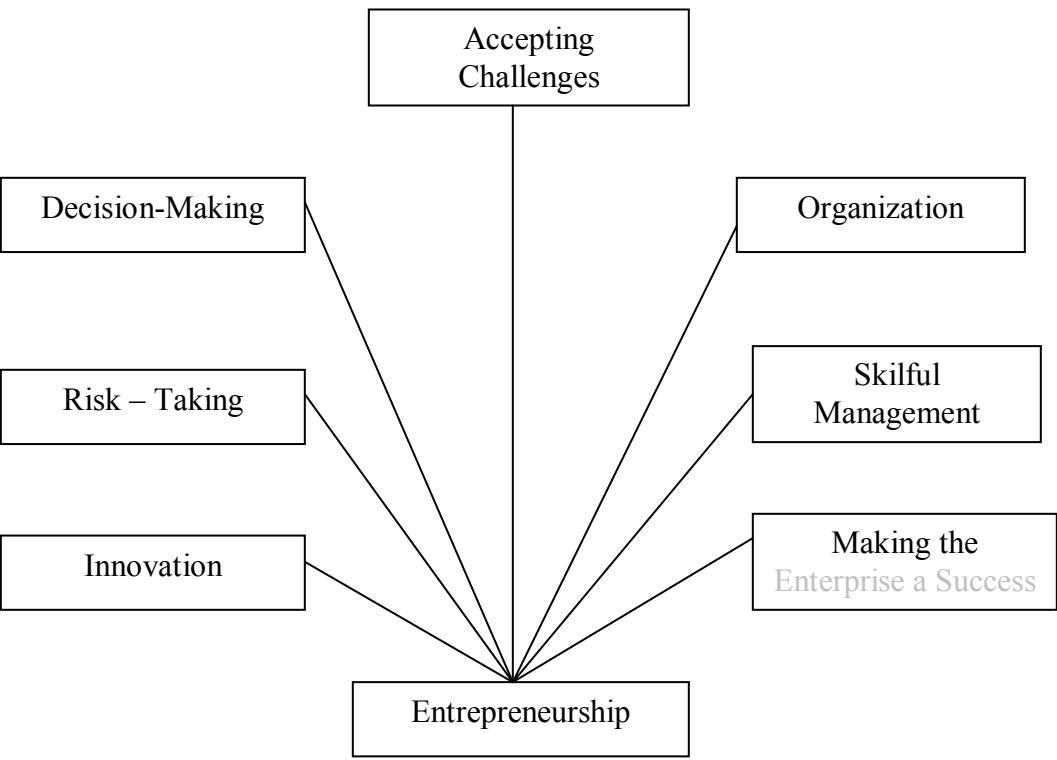


Figure – 23.3 Characteristics of Entrepreneurship

Most entrepreneurial activity of the past has largely been limited to small organizations, because size has typically been the enemy of creation and innovation. With the increasing competitiveness of the global arena of business, large firms are seeking to make use of this innovative trend. Entrepreneurship is the inculcation of the entrepreneurial spirit within a large organization.

Entrepreneurial Process

The process of entrepreneurship involves both analytical and creative activities. According to Pierce and Dunham (1990, p 535), the entrepreneurial process takes place in four sequential steps:

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*Step 1: Solo Phase*

During this step, the typical entrepreneur works alone. The first task for the entrepreneur is to clearly identify the entrepreneurial idea. Then, the idea is developed and subjected to three feasibility tests.

4. Will the idea provide clearly identifiable benefits for customer or clients?
5. Is the idea compatible with the organization's resources and overall strategy?
6. Are the idea and its potential implementation compatible with the entrepreneur's personal character and skills?

*Step 2: Network Phase*

During this step the entrepreneur shares the idea with other organizational members, seeking feedback and suggestions for improvement of the idea.

*Step 3: Bootlegging Phase*

During this step, the entrepreneur begins to form a project team and some levels of product prototype development outside the normal operational mode of the company.

*Step 4: Formal Team Phase*

During this step, the idea becomes a formal organizational venture with formal organizational support.

**ACTIVITY-A**

Define entrepreneur and entrepreneurship.

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**ACTIVITY-B**

Write the characteristics of entrepreneur.

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**BENCHMARKING**

Benchmarking is a systematic method by which organizations can measure themselves against the best industry practices. Benchmarking is the search for best practices that will lead to superior performance. Benchmarking helps a company learn its strengths and weaknesses and those of other industrial leaders and incorporate the best practices into its own operations. It promotes superior performance by providing an organized framework through which organizations can learn how the “best-in-class” do things, understand how these best practices differ from their own and implement changes to close the gap. It is a tool for continuous improvement.

**Definition:**

Benchmarking is defined as “measuring our performance against that of best-in-class companies, determining how the best-in-class achieve those performance levels and using this information as a basis for our own company's targets, strategies and implementation.” Or more simply, “the search of industry best practices that lead to superior performance”. The term “best practices” refers to the approaches that produce exceptional results, are usually innovative in terms

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of the use of technology or human resources and are recognized by customers or industry experts.

**What is a benchmark? :** A benchmark is a point of reference against which things are measured. In business, these points of reference or standards can take many forms. They are measured by questions about the product or service (e.g. how many how much time, how much money, how reliable or how well made is it?). By studying other organizations and comparing the answers to these questions, we will be able to measure our performance against that of others.

As a result, we will be able to set new goals and adapt the best practices to our organization. This, in turn, will help us to satisfy our customers with the best quality, cost product and service.

ACTIVITY – C

Define Benchmarking and Benchmark.

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Background of Benchmarking

The concept of benchmarking is not new. In the early 1800s, Francis Lowell, a New England industrialist, traveled to England to study manufacturing techniques at the best British factories. Henry Ford created the assembly line after taking tour of a Chicago slaughterhouse and watching carcasses hung on hooks mounted on a monorail move from one workstation to another. Toyota’s just-in-time production systems was influenced by the replenishment practices of U.S. supermarkets. Modern benchmarking was initiated by Xerox (in the 1980s), an eventual winner of the Malcolm Baldrige national Quality Award.

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IBM, Motorola and Xerox became the pioneers in instituting the benchmarking process. Xerox initially studied their direct competitors and discovered that:

- ❖ their unit manufacturing cost equaled the Japanese selling price in the United States.
- ❖ the number of production suppliers was nine times that of the best companies
- ❖ assembly line rejects were 10 times higher
- ❖ product lead times were twice as long and
- ❖ defects per hundred machines were seven times higher.

These results helped them to understand the amount of change that would be required to set realistic targets to guide their planning efforts.

Advantages of Benchmarking

- (i) Benchmarking promotes a thorough understanding of the company’s own process i.e., the company’s current profile (strength and weaknesses) is well understood.
- (ii) Benchmarking process involves imitation and adaptation of the practices of superior competitors, rather than invention, thereby saving time and money for the company practicing benchmarking.
- (iii) Intensive studies of existing practices often lead to identification of non-value-added activities and plans for process improvement.
- (iv) Benchmarking enables comparison of performance measures in different dimensions, each with best practices for that particular measure. It involves comparison with several companies who are best for the chosen measure. (some common performance measures are return on assets, cycle time, percentage of on-time delivery, proportion of defects, percentage of damaged goods and time spent on administrative functions).

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- (v) Benchmarking focuses on performance measures and processes and not on products. Thus, it is not restricted to the industry to which the company belongs. It extends beyond these boundaries and identifies organizations in other industries that are superior with respect to chosen measures.
- (vi) Benchmarking allows organizations to set realistic, rigorous new performance targets and this process helps convince people of the credibility of these targets.
- (vii) Benchmarking allows organizations to define specific gaps in performance and to select the processes to improve. It enables the company to redesign its products and services to achieve outcomes that meet or exceed customer expectations.
- (viii) Benchmarking provides a basis for training human resources.

### ACTIVITY – D

List the Advantages of Benchmarking

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### Limitations of Benchmarking

- (iv) The primary limitation or weakness of benchmarking is the fact that best –in-class performance is not a static but a moving target.
- (v) Benchmarking is not a panacea that can replace all other quality efforts or management processes that can improve the competitive advantage of a company.
- (vi) Benchmarking is not an “instant pudding”.

## Management Processes & Behaviour

### Pitfalls of benchmarking

The potential pitfalls of benchmarking include the failure to do the following:

- (ix) Involve the employees who will ultimately use the information and improve the process (participation can lead to enthusiasm).
- (x) Relate process improvement to strategy and competitive positioning.
- (xi) Define the firm’s own process before gathering data for the purpose of comparison.
- (xii) Perceive benchmarking as an ongoing process and not as an one-time project with a finite start and completion dates.
- (xiii) Expand the scope of the companies studied instead of confining to one’s own areas, industry or to direct competitors, which is a narrow approach in identifying excellent performance that are appropriate to one’s own processes.
- (xiv) Perceive benchmarking as a means to process improvement, rather than an end itself. Benchmark (what can be).
- (xv) Set goals for closing the gap between the existing performance (what is) and the benchmark (what can be).
- (xvi) Empower employees to achieve improvements that they identify and for which they solve problems and develop action plans.

### Approach of Benchmarking

To compare one’s business practices with those of other organizations, four common approaches to benchmarking are adopted. They are:

- (v) Internal benchmarking
- (vi) Competitive benchmarking
- (vii) Non-competitive benchmarking and
- (viii) World-class benchmarking.

**Internal benchmarking:** is done within one's organization or perhaps in conjunction with another division or branch office. Internal benchmarking is the easiest to conduct since data and information should be readily available and confidentiality concerns are minimized.

**Competitive benchmarking:** involves analyzing the performance and practices of best-in-class companies. Their performance becomes a benchmark to which a firm can compare its own performance and their practices are used to improve that firm's practices. However benchmarking the competition could be difficult since it might be impossible to collect or learn a competitor's secrets. This type of information can often be obtained through a confidential survey of all competitors, usually conducted by a third party consulting firm.

**Non-competitive benchmarking:** is learning something about a process a company wants to improve by benchmarking including –

- ❖ a related process in the industry with a firm, the company does not directly compete with
- ❖ a related process in a different industry
- ❖ an unrelated process in a different industry.

An advantage of this type of benchmarking is that new processes which could easily be adapted to one's organization might be discovered.

**World-class benchmarking:** This approach to benchmarking is the most ambitious. It involves looking towards the recognized leader for the process being benchmarked – an organization that does it better than any other.

### ACTIVITY – E

Describe the approaches of Benchmarking

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### Types of Benchmarking

Three major types of benchmarking that have emerged in business are:

- (i) Performance benchmarking or operational benchmarking.
- (ii) Process benchmarking or functional benchmarking and
- (iii) Strategic benchmarking.

**Performance benchmarking** involves pricing, technical quality, features and other quality or performance characteristics of products and services. Performance benchmarking is usually performed by direct comparisons or “reverse engineering” in which competitor's products are taken apart and analyzed. This process is also known as “operational benchmarking” or “competitive benchmarking” and involves studying of products and processes of competitors in the same industry.

**Process benchmarking** centres on work process such as billing, order entry or employee training. This type of benchmarking identifies the most effective practices in companies that perform similar functions, no matter in what industry. For example, the warehousing and distribution practices of L.L.Bean were adapted by Xerox for its spare parts distribution system. Texas Instruments studied the kitting (order preparation) practices of six companies, including Mary Kay Cosmetics and designed a process that captured best practices of each of them and thereby cutting the cycle time by 50 percent. Companies should not aim benchmarking solely at direct competitors and it would be mistake if they do so. If a company simply benchmarks within its own industry, it may be competitive and have an edge in those areas in which it is the industry leader. However, if benchmarks are adopted from outside the industry, a company may



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learn ideas and processes as well as new applications that allow it to surpass the best within its own industry and to achieve distinct superiority.

**Strategic benchmarking** examines how companies compute and seeks the winning strategies that have led to competitive advantage and market success. One way to determine how well a company is prepared to compete in a segment and to help define a best-in-class competitor is to construct a Key Success Factor (KSF) matrix similar to the one shown in figure – 23.4

Figure – 23.4 Key Success Factor Matrix					
	Competitive Analysis – Computer Industry... Segment				
Key Success	Performance Rating				
	Weight	Our company	Competitor A	Competitor B	Competitor C
Sales force					
Distribution					
Suppliers					
R & D					
Service					
Cost structure					

**Areas to benchmark:** Specific areas to benchmark at the operating level might include the following:

- (x) Customer service levels
- (xi) Inventory management
- (xii) Inventory control (extent of automation)
- (xiii) Purchasing
- (xiv) Billing and collection
- (xv) Purchasing practices
- (xvi) Quality process
- (xvii) Warehousing and distribution and
- (xviii) Transportation.

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**Guidelines to benchmarking:** Companies approach benchmarking in different ways. IBM has a four step approach. AT & T has a nine step approach and Xerox a ten step approach. All these approaches have the general guidelines given below:

- (vi) **Do not go on a fishing expedition:** When preparing a benchmarking study, pickup a specific area in the organization that needs improvement. This may be quality, customer satisfaction, accounts payable or delivery time. Then do your homework, including thoroughly reviewing your own process and procedures before picking a company that excels in the particular area chosen.
- (vii) **Use Company people:** The people who are going to implement changes need to see and understand for themselves, so it is they who should make the visits to other firms which are benchmarked and have the discussions with the concerned people. Further the visits should be short and the working teams small.
- (viii) **Exchange information:** You should be ready to exchange information and provide answers in turn to any questions you might ask another company.
- (ix) **Legal concerns:** Avoid legal problems which might arise as a result of discussions that might imply price fixing, market allocation or other illegal activities. This could lead to problems. Do not expect to learn much about new products of competitors by the benchmarking process. Most benchmarking missions focus on existing products, business practices, human resources and customer satisfaction.
- (x) **Confidentiality:** Respect the confidentiality of data obtained. Companies that agree to share information with you may strongly object if that information leaks out to a competitor.

### Phases of Benchmarking

There are four phases of Benchmarking they are:

- (v) **Planning:** Identify the product, service or process to be benchmarked and the firm(s) to be used for comparison, determine the measure of performance for analysis and collect the relevant data.
- (vi) **Analysis:** Determine the gap between the firm's current performance and that of the firm(s) benchmarked and identify the causes of significant gaps.
- (vii) **Integration:** Establish goals and obtain the support of managers who must provide the resources for accomplishing the goals.
- (viii) **Action:** Develop cross-functional teams of those most affected by the changes, develop action plans and team assignments, implement the plans monitor progress and recalibrate benchmark as improvements are made.

**Benchmarking Process:** Specific steps in benchmarking vary from company to company but the fundamental or basic approach is the same. One company's benchmarking may not work at another organization because of differences in their operating concerns. Successful benchmarking reflects the culture of the organization, works within the existing infrastructure and is harmonious with the leadership philosophy.

Motorola Inc., uses a five step benchmarking process: They are:

- (vi) decide what to benchmark
- (vii) select companies to benchmark
- (viii) obtain data and collect information
- (ix) analyze data and form action plans and
- (x) recalibrate and start the process again.

### ACTIVITY – G

Explain the phases and process of benchmarking

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### The Seven Step Benchmarking Model

Benchmarking is an ongoing process that requires data gathering, goal setting and analysis. These are accomplished by a seven step model. The seven steps are:

- Step 1 : Identify what to benchmark
- Step 2 : Determine what to measure
- Step 3 : Identify who to benchmark
- Step 4 : Collect the data
- Step 5 : Analyze data and determine the gap
- Step 6 : Set goals and develop action plan and
- Step 7 : monitor the process.

### Factors to be kept in mind to ensure success with benchmarking

- (vi) Benchmarking must have the full support of senior management. management should also be actively involved.
- (vii) Training is critical for the benchmarking team and process.
- (viii) Benchmarking should be a team activity. The team should include management, experts, consultants and especially those people directly involved in the process.

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- (ix) Benchmarking is an ongoing process. It must be part of an organization's strategy and development. If well monitored, it serves as an important segment of a total quality management system.
- (x) Benchmarking efforts must be organized, planned and carefully managed. It is a structured approach and requires planning and monitoring just like any other management tool:

Ultimately, benchmarking can be your best weapon against complacency. Used correctly, benchmarking can lead you to the competitive edge in today's business market place.

**SELF – ASSESSMENT QUESTIONS**

11. What is entrepreneurship? Explain its relevance to management.
12. What are the characteristics of entrepreneur?
13. What is meant by “benchmarking” and Benchmark.
14. Trace the evolution of ‘benchmarking’ giving some examples of U.S. firms who could achieve dramatic results by implementing benchmarking process.
15. Discuss the reasons for benchmarking stating their advantages and limitations.
16. Mention some of the pitfalls of benchmarking.
17. What do you understand by “approaches of benchmarking”. Explain.
18. Discuss the various types of benchmarking.
19. List out some of the guidelines to benchmarking.
20. What are the four phases of benchmarking? Discuss briefly.

**FURTHER – READINGS**

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4. Vasant Desai, Small-Scale Industries and Entrepreneurship, Himalaya Publications House Bombay, 1996.

**KEY TERMS**

- |                         |                            |
|-------------------------|----------------------------|
| ❖ Entrepreneur          | ❖ Competitive Benchmarking |
| ❖ Entrepreneurship      | ❖ World-Class Benchmarking |
| ❖ Entrepreneurship      | ❖ Performance Benchmarking |
| ❖ Benchmarking          | ❖ Process Benchmarking     |
| ❖ Benchmark             | ❖ Strategic Benchmarking   |
| ❖ Internal Benchmarking |                            |

## LESSON

## 24

## THE BEST MANAGEMENT PRACTICES

## LESSON OUTLINE

- Japanese Management
- Samsung adoption of Theory Z
- Japanese Management Practice
- Toshiba Corporation
- Japanese Vs Us Management Practices
- Theory Z

## LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Understand the Concept of Japanese Management.
- ❖ Explain the case of Samsung adoption of Theory Z.
- ❖ Describe the Japanese Management Practice.
- ❖ Explain how Toshiba is distinguished Japanese corporation.
- ❖ Compare Japanese Management and US Management Practices.

## INTRODUCTION

When we talk about the best management practices in world, Japanese Management Practices and American Management Practices stand first. In this contest it should be noted that some of the American companies and the companies of other countries are adapting a combination of both Japanese and American styles which Guchi called theory Z. As such in this lesson Japanese management practices and Japanese Vs American Management practices are explained.

**Japanese Management**

The managerial practices followed in Japan are quite different from those followed in economically advanced countries in the west. In recent years, more and more companies have started using Japanese management practices to increase productivity. For example Samsung a Korean Company used theory Z to improve its efficiency.

**Samsung Uses Theory Z to Become a Living Organization**

Many American firms are beginning to experiment with Japanese management philosophy. In order to get the best out of both Japanese and American management philosophies, many American firms have adopted Theory Z which combines both these philosophies. Some Korean companies, such as Samsung Group, LuckyGoldstar, Hyundai, Daewoo and Samsung have also adopted Theory Z. The Samsung Group has achieved success through the adoption of

## Management Processes &amp; Behaviour

Theory Z. In line with the Theory Z style of management, the company follows the practices described below.

- ❖ Employment in Samsung is neither short-term nor lifelong in nature. Samsung is one of the preferred places of employment for university graduates because of its prestigious image and its attractive salaries and benefits. This aspect of Samsung motivates most of its employees to remain with it for a long time. At the same time, Samsung cannot be regarded as a place for lifetime employment because its policy of strict performance appraisal leads to vigorous competition among the employees, causing many employees to exit the organization.
- ❖ Unlike other organizations, Samsung practices collective decision-making. All decisions in the organization begin with the circulation of a written proposal from the bottom of the organization to the top. The proposal moves upwards only when it has been approved by a manager at each stage. An important aspect of decision-making at Samsung is that the task of writing the proposal is given to the youngest and newest member of the department.
- ❖ At Samsung, clear lines of authority and responsibility are established. The organization does this by setting up a responsibility centre system, an individual reward system and an individual responsibility centre system. The establishment of such line of authority and responsibility encourages managers to work independently).
- ❖ The frequency of evaluation at Samsung is low. This is because the Chairman believes that it takes time to accurately assess the performance of an employee. Hence, at Samsung, an employee is

## Management Processes &amp; Behaviour

evaluated only after he has been trained and his performance has been observed for a certain number of years.

- ❖ Employees have a specialized career path. At Samsung, the specialties of employees are respected and people are given positions which suit them and in which they can work effectively.
- ❖ The organizational controls both informal and formal.

Samsung combines the Japanese style of future direction and American style of quantifiable objectives. Informal evaluation at Samsung is supplemented with various formal evaluation methods such as the personnel evaluation system. This system includes manager appraisal, output appraisal and self-evaluation.

Adapted from Mushin Lee, "Samsung Uses Theory Z to Become Living Organization," organization," Industrial Management Vol. 34, Issue 5(Sep/Oct 1992) ;p29,2p

**ACTIVITY-A**

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Describe how Samsung uses Theory Z to become a living organization.

The following are some of the Japanese Management Practices commonly cited by researchers and writers.

**The Japanese Management Practices**

They are circle employees immediately after graduation and guarantee employment until retirement, and mandatory retirement. The employers and

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employees have an unwritten mutual understanding regarding their expectations about the job. An employee spends his entire working life with a single enterprise in life time employment. This helps generate a feeling of job security in the employees and a feeling of belongingness towards the enterprise. The concept of lifetime employment brings about “harmony” in the enterprise. With this harmony employee works with loyalty and it helps him/her identify closely with the aims of the organization. The success of this practice depends on both employer and employee

The disadvantages as the lifetime employment is that it increases the labour cost of the company firm is forced to maintain a large workforce even though it may not have work to keep them all sufficiently occupied. Therefore, many firms have begun to question the practicality of the concept of lifetime employment. This permanent employment policy is generally used only by large firms.

**Seniority system**

All privileges are given to order employees based on seniority. Promotion and wage increases are based on an employee's length of service in the company, not job performance. The seniority system seems to be unfair to young and able people. But they are to some extent compensated psychologically by being assigned challenging tasks and being placed in positions which everybody in the company knows lead to future managerial positions. Almost all promotions to management jobs are from within the organization.

**Continuous training**

This is a secret of the success of Japanese managers. There is continuous training to Japanese management practice. In Japanese firms every young manager has a “godfather,” who is never his boss or anyone in the direct line of authority. The “godfather” is not part of the top management, but is highly respected by others

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and is over 45 years of age. He is expected to advise, counsel and look after his “godchild.

**Emphasis on group work**

In most Japanese organizations tasks are assigned to small group of employees. They all feel like family members and feel pride of working there.

**Decision-making**

The practice of managerial decision-making in Japan is built on the concept that new should come primarily from personnel belonging to lower levels in the hierarchy. They feel that change and improvement come from this. The lower level employees prepare proposals for higher-level personnel. The “ringi system” refers to decision-making by consensus.

The word ringi consists of two parts ‘rin,’ which means submitting a proposal to one's superior and getting his approval, and ‘gi,’ meaning deliberations and decisions. Before a proposal is finally approved, it is discussed at many group meetings. Once the proposal receives the green signal, things move fast. Thus, Japanese firms expect decision-making to take place in groups and decisions to be based on principles of full information-sharing and consensus.

**Performance evaluation by complicated interview system**

When job descriptions are not well-defined. Because of this, when tasks are performed by groups, it becomes difficult to evaluate individual job performance objectively. The evaluation of workers and managers in Japanese corporations takes a very long time – up to ten years – and requires the use of qualitative and quantitative information about performance.

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This is the reason why promotion in Japanese firms is relatively slow, and promotion decisions are made only after interviews with many people who have had contact with the person being evaluated. Since jobs are done on a group basis, individual merit rating system cannot be used. In addition, since no one tries to demonstrate individual brilliance or dynamic leadership, it is extremely difficult to isolate individual competence or job responsibility to carry out a fair rating of each employee.

**Concept of Father Leadership**

As a Kacho (manager), the task of a leader is not only to supervise his people at work, but also to show fatherly concern for their subordinate's private life. Since, promotion is based on seniority, it is not easy to move on to a kacho position. Sufficient training and experience are essential for an individual to be promoted to this position.

**Employee benefits while on the job and after retirement.**

Japanese companies provide substantial benefits to their employees. Employees are provided benefits such as family housing and transportation allowances. Some companies also provide bachelor accommodations, scholarships for employees' children, and low-interest housing loans. Salary enhancements become rapid after about seven years of employment with the firm. Since the seniority-based wage system assumes that the longer the experience, the more valuable the employee. Japanese factory workers also get considerable amount overtime work pay.

Some Japanese companies pay up to half the interest charged on mortgages for all employees. As an employee moves to the top of the corporate ladder, his company provides him with a car and a chauffeur, and membership in social clubs including a golf club. Highly qualified managers may retain their positions till their death or until they retire voluntarily, in which case there is a handsome

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pension retirement income. In case of voluntary retirement at 55, a lumpsum payment is made. In addition, Japanese companies attempt to place these employees in subsidiary company positions or in advisory positions.

**Simple and flexible organization**

In Japanese firms, very often, people are trained to be generalists. For this reason, the organization structure in Japan is relatively simple and flexible, and it is possible for people to take up a new challenge or a new task by forming a new formal or informal group. Informal organizations (referred to as habatsu), wield considerable power in formal organizations. Habatsu membership doesn't overlap with other memberships and there is total commitment from the employees. The habatsu leader enjoys a high status in the formal organization and he patronizes his followers. Following case explains the Japanese management practices at Toshiba.

**Toshiba: The Japanese Company with a Difference**

Toshiba Corporation is Japan's oldest manufacturing enterprise. It resembles many other distinguished Japanese corporate giants, with regard to its range of activities. The well-diversified company is involved in a wide variety of business, ranging from common household items to high technology products such as computer chips, laptops and hospital equipment. Like other famous Japanese corporations, Toshiba followed practices such as lifelong employment, long working hours and a rigid pay ladder. The company's uniqueness lay in the manner in which it recruited employees and the conditions it created for encouraging innovation. Unlike many comparable Japanese companies, which were vertically integrated and usually worked in isolation, Toshiba never



### Management Processes & Behaviour

hesitated to turn to outside sources to access technological expertise. The company has a history of forming strategic alliances with leading foreign companies. Some of Toshiba’s partners include IBM, Time Warner, General Electric, Siemens, United Technologies, Ericsson, Olivetti and Motorola. Toshiba, IBM and Siemens eased trade tensions among Japan, the US and Europe by signing an eight year, \$1 billion deal in 1992. The company also tied up with IBM and Apple to make multimedia equipment. In the same year, the company entered the US entertainment industry, paying \$500 million for a 6.1% stake in Time Warner.

The company did not give too much importance to selecting top ranking students from prestigious universities. Most of the shop floor workers at Toshiba were high school graduate. They joined the company at the age of eighteen and were given on-the-job training for a year in key technical skills such as welding, lathe operations and hand finishing operations. After a few years on the job, Toshiba arranged for an additional year of schooling (involving lectures and practical work) to enable workers to upgrade their skills. One worrying trend which Toshiba executives noted in the mid-1190s was that many Japanese high school graduates wished to avoid shop floor jobs and instead preferred white collar assignments.

Toshiba laid great emphasis on safety procedures. Workers were covered from head to toe in protective clothing. Before entering the manufacturing room, the workers had to put on a protective suit, long boots, tight rubber gloves that extended over the arm of the suit, a cloth helmet covering the head and neck and a gauge face mask.

Toshiba planned to recruit more engineers with an international background. The company also had plants to enter into more alliances with US companies and recruit foreigners to Toshiba’s board of directors.

### Management Processes & Behaviour

Adapted from “Toshiba, Global Strategic Management Case Studies on Fortune 500 Companies”, Transworld University, Volume VI.

#### ACTIVITY-B

Describe the Japanese Management practices

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#### Japanese vs US Management Practice and Theory Z

It is seen in America that Americans are turning to Japanese management practices to find a solution to the declining growth rate in productivity in the United States. The characteristics that distinguish Japanese from American management practices, are presented here

#### COMPARISON OF JAPANESE AND U.S. MANAGEMENT PRACTICES

Japanese Management	U.S. Management
<b>PLANNING</b>	
Long – term orientation	Short-term orientation
Collective decision making	Individual decision-making
Many people are involved in decision making	Few people are involved decision making
Decisions flow bottom-up and back	Initiated at the top and flow down
Decision making takes a long	Decision-making is fast, but

### Management Processes & Behaviour

time. But implementation is fast.  
 People share decision power and responsibility  
 Individual goal ambiguity

implementation is slow  
 It vests in designated individuals  
 Individual goal clarity.

#### ORGANIZING

Collective responsibility and accountability  
 Ambiguity of decision responsibility  
 Informal organization structure  
 Organization culture and philosophy are well known  
 Identification with company

Individual responsibility  
 Clarity  
 Formal  
 Common organizational culture is lacking  
 Identification with profession

Organizational change by internal change agent

By external change agent

#### STAFFING

Hiring young people out of school  
 Slow promotions through ranks  
 Loyalty to the company  
 Infrequent performance appraised for new employees  
 Appraisal of long-term performance

From institutions and other companies  
 Rapid promotions desired and demanded  
 Loyalty to the profession  
 Performance appraisal is frequent  
 Appraisal of short-term performance

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Reward for long-term performance  
 Small differences in pay increases  
 Reward for group performance  
 Promotions based on multiple criteria  
 Training and development considered a long-term investment turnover  
 Exposure to many functions  
 Life time employment  
 Leader as a social facilitator  
 Leader is part of the group  
 Paternalistic style  
 Common company values facilitate cooperation  
 Avoidance of confrontation; emphasis ins an harmony  
 Confluence of working and private life  
 Emphasis on oral communication

Reward for short-term performance  
 Substantial differences  
 Reward for individual performance  
 Based on individual performance  
 Training and development is on a low key due to high employee  
 Narrow career paths  
 Absence of job security  
 Leader as decision maker  
 Leader as head of the group  
 Directive style  
 Often divergent values; individualization often hinders corporations  
 Face-to-face confrontation is common  
 Highly separated  
 On written communication

#### CONTROLLING

Self control and control by peers  
 Focus is on group performance  
 The objective of control is to

Control by superiors  
 Focus is on individual performance  
 To fix the blame

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save face

Extensive use of quality circles

Limited use

*Source: Harold Koontz and Heinz Weihrich, Essentials of Management (Singapore: McGraw-Hill, Fifth edition, 1990) 495.*

However, one should be cautious when interpreting this table. Just as not all American firms are managed the same way, not all Japanese firms follow the same managerial principles.

### ACTIVITY-C

Compare Japanese and American Management Practices.

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After researching both American and Japanese management approaches, management expert William Ouchi outlined Theory Z. Ouchi began his study by identifying the contrasting characteristics of Japanese and American companies. He discovered that certain successful US-based companies – including IBM, Intel, Heweltt-Packard, Eastman Kodak, and Eli Lilly – exhibited a style of management that effectively combined the traits of typical American and Japanese companies. He called these hybrid companies – Theory Z organizations. Theory Z firms grew out of a desire to improve upon the typical American way of managing. Theory Z companies were American in origin, but Japanese in conduct and experience. They used some Japanese managerial practices, but Japanese in conduct and experience. They used some Japanese

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managerial practices, but made adjustments according to the environment prevailing in the United States. Ouchi’s work showed that American organizations could benefit from thoughtful incorporation of the Japanese management practices.

### SELF-ASSESSMENT QUESTIONS

1. What is the concept of Japanese Management?
2. Explain the Japanese Management Practices.
3. Describe Theory Z through an example of a company.
4. Compare Japanese Management and US Management Practices.

### FURTHER READINGS

1. Harold Koontz and Heinz Weihrich, Essentials of Management, McGraw-Hill, Singapore, 1990
2. Global Strategic Management Case Studies on Fortune 500 Companies, Transworld University, Volume VI.

### KEY TERMS

- Life time employment
- Seniority system
- Group work

## LESSON

## 25

## DIVERSITY MANAGEMENT

## LESSON OUTLINE

- Diversity.
- Need for Diversity Management.
- Barriers to Diversity Management.
- Factors influencing Diversity initiatives.
- Why organizations manage Diversity.
- Best strategies for managing Diversity
- Requisites for effective Diversity Management

## LEARNING OBJECTIVES

*After reading this lesson you should be able to*

- ❖ Understand the concept of diversity.
- ❖ Explain the need for diversity management.
- ❖ Present the barriers to diversity.
- ❖ Describe the factors influencing diversity initiatives.
- ❖ Explain the strategies and requisites for diversity management

## INTRODUCTION

Globalization has made us to open gates for foreign companies to establish their operations in India. The Indian companies are establishing themselves in several other countries. In this contest, diversity management is very relevant. When the companies go global, there will be employees in the company belong to different cultures, languages, races, nationals, ages etc. All these diverse employees should be managed properly. Otherwise the companies will disappear very soon.

Diversity refers to: the presence of differing cultures; languages; ethnicity; races; sexual orientation; religious sects; abilities; classes; ages; and national origins of the people in an institution or community such as school, workplace, neighborhood and so forth.

## DEFINITION OF DIVERSITY

According to Triandis, Kurovski, and Gelfand' "Managing diversity means changing the culture – that is, the standard operation procedures. It requires, data, experimentation and the discovery of the procedures that work best for each group. It is more complex than conventional management but can result in more effective organization". Thomas said, "Managing diversity is to empower or enable employees. Managing diversity prescribes approaches that are philosophically broad enough to encompass all dimensions of diversity"

## NEED FOR DIVERSITY MANAGEMENT

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Increasingly, organizations face the challenge of managing programs to accommodate a diverse workforce. It is, therefore, essential that people from business and industries understand what types of environments are conducive to the employment, retention, and promotion of diverse groups to ensure productivity and remain competitive.

The purpose is to provide diversity initiatives and programs in order to better understand organizational response to workforce diversity. It also provides a knowledge base regarding the diversity process utilized by organizations to help educators and people from business and industry better understand the current status and future trends of diversity initiatives in organizations.

- ❖ What are the barriers that have inhibited the employment, development, retention, and promotion of diverse groups in the workplace?
- ❖ What are the major factors influencing diversity initiatives in the workplace?
- ❖ Why are organizations managing diversity?
- ❖ What are the best strategies for organizations to manage diversity?
- ❖ What are the components of effective diversity training programs?
- ❖ What are the future trends related to diversity in the workplace?

### ACTIVITY-A

Write the meaning and need for diversity management.

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### BARRIERS TO DIVERSITY MANAGEMENT

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Two types of barriers:

3. Organizational barriers (coming from the workplace environment),
4. Individual barriers (coming from the employees themselves).

#### (1) Organizational Barriers

The following six factors which are there in the organization become barriers to manage the diversity.

7. Negative attitudes and discomfort towards people who are different,
8. Discrimination
9. Prejudice
10. Stereotyping
11. Racism
12. Bias

#### (2) Individual Barriers

The following factors in the individual employees become the barriers for diversity management in an organization.

1. Poor career planning
2. Inadequate skill preparation
3. Lack of organizational political savvy
4. Lack of proper education
5. Low self-esteem
6. Poor self-image

### ACTIVITY-B

List out the barriers to diversity management

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**FACTORS INFLUENCING DIVERSITY INITIATIVES**

The six major factors most frequently influencing diversity initiatives in the workplace are

**(1) Demographic changes**

Immigration, increase in women workers, increase in minority workers, increase in older workers, and more people with disabilities in the workplace.

**(2) Global marketplace**

The globalization has raised the need for a multicultural perspective to compete successfully abroad. The organizations need to deal with employees, customers, and suppliers around the world. Employees need skills and cultural awareness training to be more knowledgeable, understanding, and sensitive to the differences that exist between them and other nationals.

**(3) Economics**

Diverse population makes a large percentage of customer bases. Diverse customers are now earning more money and can afford more and are willing to pay more to get what they want.

**(4) People are more comfortable being different**

People bring to the workplace a variety of experiences, values, cultures, physical abilities, religions. Work styles, and so forth. They are no longer willing to deny their defenses in order to assimilate into the organization's mainstream. They

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want to maintain their uniqueness and still receive the respect and support of the people they work with.

**(5) Diverse customer base**

Diverse customers are more complex and differ in their needs, tastes, and desires. To understand and respond properly to a diverse customer base, business need to make their own workforce more diverse.

**(6) Equal Employment Opportunity and Affirmative Action programs**

Now there are equal employment opportunities for men and women, and people belong to any country.

**ACTIVITY-C**

Explain the factors influencing diversity initiative in work place.

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**WHY ORGANIZATIONS MANAGE DIVERSITY**

The organizations manage diversity for the following reasons:

5. To Improve Productivity and Remain Competitive
6. To Form Better Work Relationships Among Employees
7. Social Responsibility
8. Legal Concerns

**BEST STRATEGIES FOR MANAGING DIVERSITY**

Six best strategies for managing diversity are...

7. Training and education programs

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8. Organizational policies that mandate fairness and equity for all employees
9. Mentoring programs
10. Career development programs
11. Performance appraisal systems that are non-discriminatory
12. Outreach programs.

Community involvement, internship programs, scholarships, targeting recruitment in the community, lectures at B-schools, adopting B-schools, and the creation of partnerships with business schools.

**ACTIVITY-D**

Why organizations manage diversity and what are the strategies for that.

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**PRE-REQUISITES FOR EFFECTIVE DIVERSITY MANAGEMENT**

For effective management of diversity the following are required:

- Obtain Top Management Support
- Integrate Diversity Into All Company Functions
- Use a Combination of Strategies
- Create a Corporate Culture That Supports Diversity

**SELF-ASSESSMENT QUESTIONS**

4. What is diversity? Explain the need for diversity management.

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5. What factors influence the diversity management at work place? What are the barriers of diversity management?
6. What are reasons for organizations to go for diversity management and what are the strategies for diversity management.

**KEY TERMS**

- Diversity.
- Demographic changes.
- Global market place.
- Diverse customer base.

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